IPL
Energy Inc.

energy **transportation** *energy* **distribution** *energy* **services**

1997

Annual Report

IPL Energy Inc.

Energy Transportation

Liquids Pipelines

- Interprovincial Pipe Line Inc.
- Portal Pipe Line Company
- Interprovincial Pipe Line (NW) Ltd.
- Mustang Pipe Line Partners (30%)
- Lakehead Pipe Line Partners, L.P. (16.6%)
- Frontier Pipeline Company (43.8%)
- Producers Pipelines Inc.
- *Wild Rose Pipe Line Inc., proposed*

Liquids Marketing

- *ElecTrade Petroleum Exchange Inc., proposed*
- *Tidal Energy Marketing Inc. (50%), proposed venture*

Gas Transmission (note 1)

- *Alliance Pipeline Project, proposed*
- *Vector Pipeline Project, proposed*
- *Millennium Pipeline Project, proposed*

International

- IPL International Inc.
- IPL Technology & Consulting Services Inc.
- Oleoducto Central S.A. (17.5%)
- Consumers Gas International Group

Energy Distribution and Services

Energy Distribution

- The Consumers' Gas Company Ltd.
- Niagara Gas Transmission Limited
- St. Lawrence Gas Company, Inc.
- Consumers Utilities Ltd. (50%) (note 2)
- Gazifère Inc.
- *Cornwall Street Railway Light and Power Company Limited, proposed acquisition*
- *Consumers Gas Energy Inc., proposed Nova Scotia distribution rights*
- *Consumers Gas Energy Inc., proposed New Brunswick distribution rights*

Noverco Inc. (32%)

- Gaz Métropolitain and Company, Limited Partnership (80%)
- Vermont Gas Systems, Inc. (100%)
- Trans Quebec & Maritimes Pipeline Inc. (50%)

Energy Services

- Consumersfirst Ltd.
- JPH International Inc. (90%)

Note 1: IPL Energy Inc. holds a 21.4% interest in Alliance and is the sponsor of Vector; IPL Energy intends to exchange an equity interest in Vector for an interest in Millennium.

Note 2: Water project, York Region, Province of Ontario.

IPL Energy Inc. is a North American leader in energy delivery and services, operating the world's longest crude oil and liquids pipeline system, and Canada's largest natural gas distribution company through The Consumers' Gas Company Ltd. which serves 1.4 million residential, commercial and industrial customers in south central and eastern Ontario, Quebec and Upper New York State. With assets of $6.7 billion and 5,000 employees, the Company maintains its registered office in Calgary, Alberta. IPL Energy's common shares trade on the Toronto and Montreal stock exchanges in Canada under the symbol "IPL". In the United States the shares trade on The NASDAQ National Market under "IPPIF".

IPL
Energy Inc.

Highlights

(Canadian dollars in millions, except per share amounts)	**1997**	1996	1995
Financial			
Earnings	**217.3**	180.3	130.4
Cash provided from operating activities	**432.0**	538.0	470.0
Dividends	**147.1**	125.9	116.3
Per share amounts			
Earnings	**3.15**	2.90	2.30
Cash provided from operating activities	**6.27**	8.65	8.28
Dividends	**2.12**	2.03	2.00
Return on average shareholders' equity	**14.2%**	15.0%	13.2%
Debt to debt plus shareholders' equity at year end	**67.7%**	68.4%	69.1%

(Canadian dollars in millions)			
Operating			
Energy Transportation [1, 2]			
Operating revenue	**518.1**	508.7	467.6
Capital expenditures	**214.8**	164.8	82.5
Deliveries (thousands of barrels per day)	**2,083**	1,970	1,754
Barrel miles (billions)	**771**	768	771
Average haul (miles)	**1,014**	1,069	1,204
Energy Distribution [3]			
Operating revenue	**2,001.9**	1,949.2	1,855.2
Capital expenditures	**416.4**	392.9	345.4
Gas distribution volumes (billion cubic feet)	**428**	429	391
Number of active customers (thousands)	**1,362**	1,307	1,264
Degree day deficiency [4] (degrees Celsius)			
Actual	**4,011**	4,209	3,748
Forecast based on normal weather	**4,003**	4,058	3,955

1 Certain comparative amounts have been reclassified to conform to the current year's basis of presentation.

2 Energy Transportation operating highlights include the statistics of the 16.6% owned portion of the mainline system located in the United States.

3 Highlights of Energy Distribution reflect the results of The Consumers' Gas Company Ltd. and other gas distribution assets on a quarter lag basis of consolidation.

4 Degree day deficiency is a measure of coldness. It is calculated by accumulating for each day in the fiscal period the total number of degrees by which the daily mean temperature fell below 18 degrees Celsius. The figures given are those accumulated in the Toronto area.

Letter to Shareholders

B.F. MacNeill, President & Chief Executive Officer

A year ago IPL Energy embarked upon a new course of action to fulfill its long term objective of providing superior value to shareholders both through share price appreciation and dividend growth. The adoption of this new strategy is designed to position the IPL Energy group of companies at the forefront of providing energy delivery and services in a changing North American energy market, leveraging off the Company's two core business units – the transportation of liquid hydrocarbons and the distribution of natural gas. The IPL Energy strategic plan is underpinned by four key considerations:

- accelerate high single-digit percentage growth in earnings per share from the existing core energy delivery businesses to double-digit percentage growth by participating in the emerging retail energy services market;
- capitalize on existing strengths and capabilities as the Company moves forward;
- utilize joint ventures to acquire necessary new skills and complementary assets and
- maintain steady, modest near term dividend growth.

1997 Highlights

"an exceptional year in terms of profitability, growth and stock market performance"

In terms of profitability, growth and stock market performance, 1997 was an exceptional year. Reflecting the early benefits that are beginning to flow from the implementation of the new strategy, earnings advanced 21% to a record $217 million over the $180 million earned in 1996. On a per share basis, 1997 earnings were equivalent to $3.15 versus $2.90 in 1996. Both core business units contributed to the higher earnings. The Energy Transportation segment continued to enjoy unprecedented demand for increased transportation capacity due to higher Western Canadian crude oil production with total system deliveries advancing 6% to a record 2.1 million barrels per day. The segment was also positively affected by the Cusiana crude oil pipeline project in Colombia which is substantially complete. The Energy Distribution segment benefitted from the purchase late in 1996 of the outstanding minority interest in The Consumers' Gas Company Ltd. The addition of 55,000 new natural gas customers, reflecting the stronger Ontario economy, was more than sufficient to offset the weather which was 5% warmer than in 1996.

The increase in earnings in 1997 enabled the Company to raise the quarterly dividend by 6% to an annualized rate of $2.18 per share, starting with the dividend paid September 1, 1997. The increase was the second in as many years.

The progress achieved in 1997 was also reflected in the total return to shareholders from dividends and share price appreciation. For the year ended December 31, 1997, the total return to an IPL Energy shareholder from an investment made at the beginning of 1997 reached 71%. This compares with a total return of 37% from a composite investment in the Canadian companies whose business activities and risk levels are most comparable to IPL Energy, and with a 15% return by The Toronto Stock Exchange 300 Composite Index.

Response to the Changing Energy Market

Although IPL Energy has long enjoyed stature as operator of the world's longest crude oil pipeline system, the 1994 acquisition of Consumers Gas significantly strengthened IPL Energy's competitive position. The addition of Canada's largest natural gas distribution company created a corporation with a much larger base of financial resources, skill sets and assets with which to tackle the challenges and opportunities created by the substantial restructuring of the North American energy markets.

The changes occurring in the energy marketplace are characterized by at least three, sometimes overlapping, developments: incentive regulation, unbundling and convergence.

"resources to tackle the changing energy market"

Incentive Regulation

Though large portions of the energy delivery infrastructure in North America will continue to be subject to regulatory oversight, conventional cost of service regulation is on the wane. Customers, regulators and utilities are developing alternative arrangements that provide financial incentives to achieve cost efficiencies and reduce the bureaucratic overhead and the adversarial nature of the regulatory process to the benefit of both customers and shareholders.

Incentive regulation provides a new tool that enables IPL Energy to increase the earnings of its core regulated utilities. For example, in 1995 the Company became the first crude oil common carrier in North America to implement a comprehensive incentive tolling agreement. The Company's strategy is, wherever possible, to apply incentive tolling methodology to other core regulated businesses and to new infrastructure projects as they are developed. Since introducing the incentive arrangement across the mainline system, the Company has incorporated these methodologies to most new pipeline projects, including the Cusiana crude oil pipeline in Colombia.

Unbundling

Unbundling, or the removal from regulation of a variety of ancillary products and services such as appliance merchandising and the rental of natural gas water heaters and furnaces, provides an opportunity to create new energy service businesses not subject to regulatory limitation on profitability, nor confined geographically to a utility franchise area.

With 1.4 million customers, Consumers Gas is ideally positioned to participate in retail energy services. Over the years, the Company has developed a strong portfolio of energy products and services. For example, Consumers Gas is the largest natural gas appliance retailer in Canada and, more recently, has emerged as the largest retailer of natural gas fireplaces in North America.

Part of IPL Energy's response to unbundling has been to create a new unregulated retail energy services business unit called *Consumersfirst* with the ability to react to both unbundling and convergence opportunities by utilizing existing retail marketing skills. The initial focus of *Consumersfirst* is to provide natural gas brokerage services to customers in Ontario with plans to deliver integrated energy products and services, as well as to satisfy customer demand for service, convenience and innovation. Plans also include the expansion of energy service products across Ontario and in selected locations in North America. Late in 1997, *Consumersfirst* opened the first of five planned retail natural gas appliance stores in British Columbia.

Convergence

The integration of the natural gas and electrical power segments, frequently referred to as convergence, is providing further opportunities for the Company. At the distribution level there are significant benefits to common ownership and operation of the infrastructure to serve gas, electric and water distribution. All three have substantially similar systems to handle meter reading, monthly billing, and grid maintenance.

Convergence will also play a significant role in shaping and defining the new unregulated retail energy services businesses environment. Successful energy services retailers will need to offer a menu of both natural gas and electricity energy choices, along with related products and services.

The importance the Company attaches to electricity is reflected by two transactions entered into in 1997. First, IPL Energy acquired a 32% interest in Noverco Inc. of Montreal, and Noverco acquired a reciprocal 8% interest in IPL Energy. The Noverco transaction not only confers indirect ownership in existing natural gas distribution systems in Quebec and Vermont but creates a strategic alliance with Noverco's affiliates, including Hydro-Quebec, the largest and lowest cost power generator on the continent. Second, the proposed purchase of Cornwall Electric, an electricity distributor in eastern Ontario, would create an entry into the electrical distribution business and a platform from which to assess other opportunities in Ontario and elsewhere should they arise.

"building on existing strengths"

Market Intelligence/Levering

Taken together, the external forces of incentive regulation, unbundling and convergence increase the importance to IPL Energy of market intelligence as a critical factor in identifying and capturing growth opportunities in both new, unregulated energy services markets, as well as in energy transportation and distribution infrastructure investments. There are now more infrastructure developers than ever as companies begin to cross industry boundaries. As well, the regulatory processes that once served to coordinate supply, demand and infrastructure developments are being displaced by market forces. As the Company moves forward, the key to capturing future growth opportunities will be the ability to obtain and analyze information, identify unserved needs or markets, design responses to meet these needs, and execute with greater agility than competitors.

On the transportation side of the business, the mainline system is being expanded by 120,000 barrels per day to increase capacity from Western Canada to Chicago through the $540 million SEP II program that is well underway. Beyond the SEP II program, the proposed Terrace program would provide the capability to transport a further 270,000 barrels per day of heavy oil. After allowing for anticipated light oil production declines, total system delivery would increase by 160,000 barrels per day. The Canadian portion of the expansion would cost an estimated $640 million, the United States portion U.S. $138 million. The system is also being expanded upstream to new sources of supply through the Wild Rose Pipe Line project, a $375 million proposal to accommodate anticipated growth in heavy oil production from the Athabasca/Cold Lake region of Alberta, as well as downstream through another separate pipeline project to connect the mainline system with a refinery at Toledo, Ohio. The idle system extending from Sarnia, Ontario, to Montreal, Quebec, is being reversed to deliver offshore crude oil supplies to Quebec and Ontario markets, and new international opportunities, like the Cusiana crude oil pipeline project in Colombia, are being sought to bring new supplies to market.

IPL Energy's strategic plan recognizes the importance of levering its core business competencies to pursue natural gas pipeline infrastructure opportunities. The combination of IPL Energy's ability to contract throughput volumes in order to supply its gas distribution operations, and the ability to provide low cost operating services in areas adjacent to its crude oil system, has enabled the Company to assemble significant interests in a number of gas pipeline projects. Most significant is the combination of the proposed Alliance, Vector and Millennium pipeline projects that tie together to form a new transcontinental network from the Western Canadian Sedimentary Basin to Eastern Canadian and United States markets. IPL Energy is a founding partner in the Alliance pipeline project, the sponsor of Vector, and holds an equity interest in Millennium.

The natural gas distribution business is also taking advantage of market intelligence to expand. The joint venture with Nova Scotia Power to propose a gas distribution system in the Province of Nova Scotia is an example of geographic extension. Distribution rights are also being sought in the Province of New Brunswick. Additionally, the Company is expanding horizontally into water supply, represented by the venture with a United Kingdom water distribution company to develop a solution for the long term water supply needs of Ontario's York Region.

In the energy services area an important step was taken in 1997 with the proposed acquisition of a 50% interest in the crude oil and liquids marketing business of Gulf Canada Resources Limited. The venture, named Tidal Energy Marketing Inc., would create the largest independent liquids marketer in Canada.

IPL Energy's new strategy of leadership in energy transportation, delivery and energy services positions the Corporation to maximize advantages presented by the changing North American energy market. The Company will expand its significant presence in energy delivery businesses while increasing its focus on non-regulated energy services, with the primary emphasis being on the retail sector.

"commitment to the community"

The Community

The IPL Energy group of companies remains an active and dedicated participant in the community of which it is part. In addition to providing financial and in-kind support, it encourages the volunteer efforts among its employees and associates. In 1997, the combined contributions to health and social services programs, education and environmental causes totalled \$2.3 million, an amount that is budgeted to increase again in 1998.

Board of Director and Executive Appointments

Welcome is extended to André Caillé, President and Chief Executive Officer of Hydro-Quebec, who was appointed to the IPL Energy Board of Directors following the Noverco transaction. His experience is expected to make a significant contribution to the Company's evolving strategic direction. At the same time, IPL Energy nominated three representatives to the Board of Directors of Noverco and three to Gaz Métropolitain.

IPL Energy realigned its senior executive function to complement the Company's new strategic direction. P. (Pat) D. Daniel was appointed Executive Vice President & Chief Operating Officer – Energy Transportation Services, R. (Ron) D. Munkley, Executive Vice President & Chief Operating Officer – Energy Distribution Services and J. R. (Richard) Bird, Senior Vice President, Corporate Planning & Development. M. (Mel) F. Belich and D. (Derek) P. Truswell continue their current responsibilities as Senior Vice President, General Counsel & Corporate Secretary, and Senior Vice President & Chief Financial Officer, respectively, with Mr. Belich also assuming responsibilities for Corporate Affairs and Administration. Ms. B. (Bonnie) DuPont was appointed Senior Vice President, Human Resources, with responsibility for all human resource activities for the IPL Energy group of companies. Together these individuals comprise the Corporate Leadership Team and report to B. (Brian) F. MacNeill, President & Chief Executive Officer. In addition to these appointments, R.H. (Hugh) B. Sangster was appointed President, IPL International Inc., R. (Rudy) G. Riedl, President, The Consumers' Gas Company Ltd. and S. (Stephen) J. Wuori, President, Interprovincial Pipe Line Inc.

Appreciation is extended to IPL Energy's 5,000 employees for their continued support and commitment. The success the Company has enjoyed to date is made possible only by the hard work, dedication, skill and expertise of all employees. The Board of Directors thanks them for an exemplary 1997, a year in which the Company continued to thrive in a challenging and rapidly changing business environment.

On behalf of the Board of Directors:

D.J. Taylor
Chairman
February 25, 1998

B.F. MacNeill
President & Chief Executive Officer

Management's Discussion and Analysis

Overview

IPL Energy's financial results over the last three years reflect strengthening contributions from each of the Corporation's operating segments due to the continuation of solid results achieved by core business units, augmented by the Corporation's continuing ability to capitalize on growth opportunities.

In 1997, consistent with its growth and business opportunities, the Corporation redefined its reporting of operating segments. The new reporting segments, **Energy Transportation**, **Energy Distribution** and **Corporate**, reflect the allocation of assets and management structure of the Corporation. In order to allow for a meaningful comparison of results, the 1996 and 1995 comparatives have been restated according to the new segmentation.

Financial Highlights

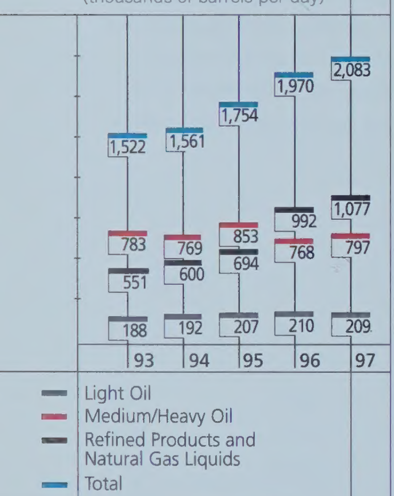
(Canadian dollars in millions, except per share amounts)	**1997**	1996	1995
Segmented earnings			
Energy Transportation	**122.5**	97.4	81.8
Energy Distribution	**124.2**	111.8	75.5
Corporate	**(29.4)**	(28.9)	(26.9)
	217.3	180.3	130.4
Cash provided from operating activities	**432.0**	538.0	470.0
Dividends	**147.1**	125.9	116.3
Per share amounts			
Earnings	**3.15**	2.90	2.30
Dividends	**2.12**	2.03	2.00

Earnings for the year ended December 31, 1997, increased 21% over the previous year. The full year impact of the acquisition of the 15% minority interest of The Consumers' Gas Company Ltd. in December 1996, combined with significantly improved earnings from both International and North American pipeline operations accounted for the increase. The improvement in 1996 earnings over 1995 was primarily due to base earnings growth in both the crude oil pipeline and natural gas distribution businesses as well as the effect of colder weather in the franchise area of Consumers Gas.

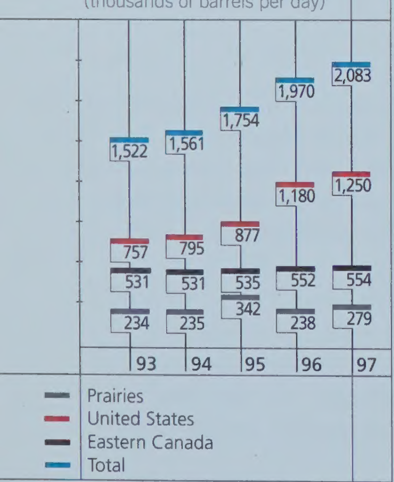
Cash provided from operating activities decreased in 1997 as the use of cash for working capital requirements, including a reduction in short term borrowing levels used to finance gas in storage, more than offset higher earnings. The significant improvement in cash provided from operating activities in 1996 over the prior year was primarily attributable to increased earnings, partially offset by fluctuations in working capital levels.

Over the three year period, dividends paid reflected both increases in dividend rate and the number of common shares outstanding. Due to the significant growth in earnings, a 3% increase in the quarterly dividend to $0.515 per share in the third quarter of 1996 was followed by a further 6% increase to $0.545 in the third quarter of 1997.

Energy Transportation [1]
Deliveries by Type
(thousands of barrels per day)



Energy Transportation [1]
Deliveries by Destination
(thousands of barrels per day)



[1] Includes the statistics of the 16.6% owned Lakehead System.

Energy Transportation

The results of the Energy Transportation segment include contributions from three primary North American pipeline systems: the Canadian portion of the main crude oil pipeline (IPL System), the 16.6% owned portion located in the United States (Lakehead System) held through a U.S. Master Limited Partnership (Partnership), and a wholly owned pipeline originating in the Northwest Territories (IPL (NW) System). In addition, Energy Transportation also reflects earnings from Feeder Pipelines and the Corporation's investment in the Cusiana crude oil pipeline project in Colombia.

Energy Transportation Earnings

(Canadian dollars in millions)	**1997**	1996	1995
IPL System	**68.3**	59.6	55.5
Lakehead System	**19.3**	11.6	7.2
IPL (NW) System	**12.6**	13.2	13.6
Feeder Pipelines and Other	**6.2**	8.2	3.9
	106.4	92.6	80.2
International	**16.1**	4.8	1.6
	122.5	97.4	81.8

The 1997 earnings of the IPL System continued to reflect beneficial achievements under the Incentive Tolling Agreement entered into with shippers in 1995, as well as ongoing capacity expansion programs. Under incentive tolling, the ability to achieve higher earnings is based on maximizing system utilization and increasing operating efficiency, a departure from traditional cost based regulation whereby earnings are based on the level of capital investment. Under the agreement, earnings in excess of pre-determined thresholds are shared between the Corporation and its customers. In 1997, the IPL System exceeded the threshold earnings, providing a net benefit of $9.3 million to the Corporation (1996 – $4.7 million; 1995 – $3.7 million) and $8.0 million (1996 – $3.4 million; 1995 – $2.5 million) to industry.

IPL System earnings over the three year period have also been positively affected by the completion of the first phase of the System Expansion Program (SEP I) in 1996 at a cost of $85 million and the commencement of the SEP II in 1997.

Earnings from the Lakehead System also improved in 1997 as a result of incentive distributions from the Partnership as well as the effects of the settlement with the Federal Energy Regulatory Commission (FERC) of various contested tariff rate cases.

Prior to 1996, the IPL(NW) System was regulated on a full cost of service basis, earning a 16% return on an approximate $85 million investment. Effective July 1, 1996, earnings reflect an Amending Agreement negotiated with the primary shipper whereby earnings are based on a deemed equity ratio of 55% and a National Energy Board (NEB) prescribed multipipeline rate of return on equity. The Amending Agreement remains subject to formal approval by the NEB.

Feeder Pipelines and Other earnings in 1997 include contributions from wholly owned Producers Pipelines Inc. of Saskatchewan and Portal Pipe Line Company of North Dakota, both of which were acquired in 1995, as well as the Corporation's 30% joint venture interest in the Mustang Pipeline, which was acquired in late 1996. These entities operate pipelines that connect with the main pipeline system. The 1997 results of this segment also reflect expenditures associated with business development activities. Absent these costs, earnings from feeder pipelines would have reflected a modest increase.

Earnings from International primarily reflect results from IPL Energy's U.S. dollar denominated investment in a pipeline project in Colombia. IPL Energy is providing long term funding for the project and is earning a pre-established fixed rate of return on its investment. Under separate agreements, the Corporation acts as joint operator and earns operating fees. The improved contributions from International reflect increases in the investment level in the Colombia project over the three year period, as well as the receipt of operating fees which commenced in 1996.

Energy Distribution

The Energy Distribution segment includes earnings from Consumers Gas and related utilities, as well as contributions from the Corporation's strategic investment in Noverco Inc. in late 1997. Expenditures incurred in the emerging energy services initiatives are also reflected in the segment.

Energy Distribution Earnings

(Canadian dollars in millions)	**1997**	1996	1995
Consumers Gas and Related Utilities	**125.2**	133.9	90.5
Minority Interest	**–**	(22.1)	(15.0)
	125.2	111.8	75.5
Noverco	**6.9**	–	–
Energy Services	**(7.9)**	–	–
	124.2	111.8	75.5

Energy Distribution [1]
Number of Active Customers
Year End (thousands)

Energy Distribution [1]
Volume of Gas Distributed
(billion cubic feet)

[1] For comparative purposes, the 1994 and 1993 operating statistics reflect full year results of Consumers Gas prior to the date of acquisition (June 30, 1994).

Consumers Gas is a regulated natural gas distribution utility serving approximately 1.4 million customers in south central and eastern Ontario. Earnings contribution from Consumers Gas, after deduction of minority interest, increased significantly in 1997 as a result of the acquisition of the remaining common shares on December 9, 1996.

Earnings of Consumers Gas are affected primarily by allowed rates of return, rate base growth and weather patterns in its franchise area. Over the three year period, the continuing growth in the rate base was partially offset by the reduction in the allowed rate of return and in 1997, by warmer weather. For its 1997 fiscal year, Consumers Gas' allowed rate of return was 11.5% (1996 – 11.875%; 1995 – 11.65%) on a deemed 35% common equity component and a rate base of $2,831 million (1996 – $2,602 million; 1995 – $2,430 million). Underlying this growth in rate base, Consumers Gas has added 143,000 customers since the beginning of 1995, including 55,000 in 1997. The continued popularity of natural gas among homeowners and builders due to its relative price advantage and environmental benefits over other forms of energy has been the primary driver in the expansion of the customer base.

Earnings from Consumers Gas are highly sensitive to weather. Degree days, which represent a measure of coldness in the franchise area, were 4,011 in 1997 as compared with 4,209 in 1996 and 3,748 in 1995.

On August 27, 1997, the Corporation purchased $181.4 million of Noverco's preference shares and $151.0 million in Noverco common shares representing a 32% equity interest. Noverco is a holding company whose principal asset is an 80% interest in Gaz Métropolitain and Company, Limited Partnership which is engaged in natural gas distribution in Quebec and Vermont. Noverco also holds a 50% interest in Trans Quebec & Maritimes Pipeline Inc. which owns and operates a gas transportation pipeline in Quebec. In a related transaction, the Corporation sold six million of its common shares to Noverco for $287.1 million representing an 8% ownership in IPL Energy.

The preference shares entitle the Corporation to a cumulative dividend based on the yield of 10 year Government of Canada bonds plus 4.45%. Earnings from Noverco also reflect the Corporation's 32% equity interest adjusted for the effect of the reciprocal shareholding in IPL Energy and the amortization of the purchase price discrepancy.

Energy Services reflects the Corporation's strategic entrance into the emerging retail energy services market. This segment will provide integrated energy products and services to customers. The loss related to Energy Services reflects start up costs and general business development expenses associated with this initiative.

Corporate

The Corporate segment includes other investing and financing activities such as general corporate investments and costs associated with financing non regulated activities.

The loss from the Corporate segment was comparable over the three year period. In 1997, higher interest costs and corporate provisions were offset by the gain on the dilution of the Corporation's investment in the U.S. pipeline operations. Higher average debt levels associated with financing the Consumers Gas minority interest acquisition and the investment in Noverco were partially offset by the reduction in average interest rates. Corporate provisions include amounts provided for potential liabilities arising from claims in the normal course of business. In October 1997, the U.S. Master Limited Partnership completed a public issue of additional Partnership Units. As the Corporation elected not to participate in this offering, its effective interest in the Partnership was reduced from 18% to 16.6%. The proceeds received by the Partnership were allocated among the capital accounts of the unitholders based upon the increase in Partnership net assets attributable to each interest as a result of the issue. The Corporation's pro rata share of Partnership net assets increased by $16.3 million ($10 million after tax), which was recognized as a dilution gain. In 1996, the effect of a significant decline in interest rates as compared with 1995 was offset by increased corporate provisions.

Consolidated Results of Operations

The following discussion focuses on the significant variances affecting income statement line items including, where appropriate, analysis of significant revenue and expense items as presented in Note 2 to the Consolidated Financial Statements.

Operating Revenue

(Canadian dollars in millions)	**1997**	1996	1995
Energy Transportation	**518.1**	508.7	467.6
Energy Distribution			
Gas sales	**1,763.9**	1,749.8	1,694.4
Transportation	**25.9**	13.1	13.0
Other	**212.1**	186.3	147.8
	2,520.0	2,457.9	2,322.8

Operating revenue generated by the Energy Transportation segment increased over the three year period due to capacity expansions and the acquisition of feeder pipelines. Revenues were higher in 1997 due to the impact of system expansions and the recovery of certain operating costs from the shippers. These increases were partially offset by lower transportation revenue on the IPL (NW) System due to the full year impact of the Amending Agreement. Revenues increased in 1996, compared with the prior year, due primarily to a full year's contribution from the Producers and Portal pipelines. Higher Energy Transportation revenues also reflected the recovery of line integrity program costs, as well as income tax variances allowed under the terms of the Incentive Tolling Agreement. These increases more than offset a $10 million reduction in IPL (NW) System revenue, again reflecting lower depreciation and interest expense in accordance with the Amending Agreement.

Over the three years, gas sales from Energy Distribution reflected the continued growth in customer base as well as the effect of weather. Gas sales in 1997 improved as a result of customer additions and a stronger economic environment. These factors were substantially offset by the effect of warmer weather. The 1996 revenue level, in comparison with 1995, reflects the benefit of colder weather and customer growth partially offset by lower unit gas costs. Distribution volumes for the three years amounted to 428 billion cubic feet in 1997, 429 billion in 1996 and 391 billion in 1995.

Energy Distribution transportation revenue increased in 1997 over the prior year due to the increase in number of customers opting for transportation service only. Other revenue has also increased over the three year period due to higher revenue from rental appliances. The increase was attributable to the full year's effect of higher residential rental rates for water heaters introduced in 1996 in response to increased taxes payable, as well as an increase in customer base. The increase in taxes payable was the result of a change in Revenue Canada's assessing practice.

Expenses

(Canadian dollars in millions)	**1997**	1996	1995
Gas costs	**1,036.4**	1,064.3	1,123.0
Operating and administrative			
Energy Transportation	**246.4**	224.4	199.6
Energy Distribution	**386.7**	345.5	317.4
Corporate	**5.3**	6.4	(1.2)
Depreciation			
Energy Transportation	**85.8**	88.4	89.0
Energy Distribution	**186.0**	146.6	131.4
Corporate	**2.2**	2.0	1.1
	1,948.8	1,877.6	1,860.3

Lower gas costs in 1997 were due to a decline in gas sales volumes partially offset by a slight increase in unit gas costs. The decline in volumes reflected both warmer weather and a shift of some customers to transportation service. The decrease in gas costs in 1996 over the prior year was the result of a significant decrease in unit gas costs which was only partly offset by the effect of colder weather.

Operating and administrative expenses in 1997 for the Energy Transportation segment increased $22.0 million over the prior year. The increase was largely attributable to increased business development project expenses, higher property taxes, the acquisition of a 30% interest in the Mustang joint venture, and general cost increases. The increase in 1996 over the prior year was attributable to the full year effect of the acquisition of Producers and Portal, expenditures on line integrity programs, and minor cost increases over several cost categories.

Operating and administrative expenses for the Energy Distribution segment have increased each year, largely as a result of higher costs associated with serving an expanding customer base, inflationary increases, and the growth of ancillary operations, particularly the rental of water heaters.

Over the three year period, Corporate administrative expense reflects an increasing number of business development initiatives.

During the last three years, depreciation expense related to Energy Transportation assets has remained relatively constant as growth in property, plant and equipment resulting from capacity expansion and pipeline acquisitions was essentially offset by a reduction in IPL (NW) System depreciation in 1996 as a result of the Amending Agreement.

In 1997, Consumers Gas depreciation expense increased due to higher depreciation rates approved by the Ontario Energy Board (OEB). Growth in property, plant and equipment necessary to serve the expanding customer base over the last three years also contributed to increasing depreciation expense for the Energy Distribution assets.

Earnings

(Canadian dollars in millions)	**1997**	1996	1995
Operating income	**571.2**	580.3	462.5
Investment and other income	**76.5**	31.7	39.1
Interest expense	**(276.1)**	(271.3)	(281.8)
Income taxes	**(154.3)**	(138.3)	(74.4)
Minority interest	**–**	(22.1)	(15.0)
	217.3	180.3	130.4

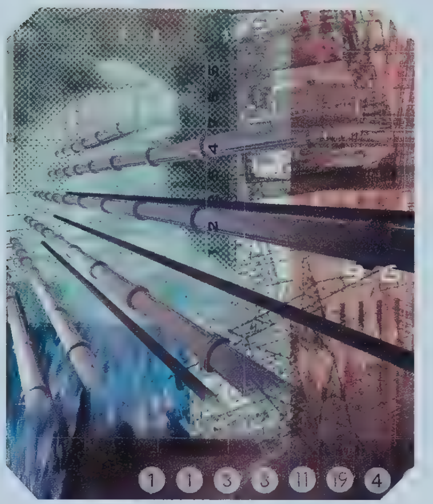
Operating income has declined from 1996, principally as a result of increased project and business start up costs including the emerging energy services. However, this decline is more than offset by additional contributions from investments in the Colombia pipeline project, the Partnership and Noverco. These contributions, due to the nature of accounting treatment accorded to such investments, are included in investment and other income. The operating income increase in 1996 from 1995 reflects the impact of the colder than normal winter in 1996 as well as rate base expansions in both Consumers Gas and liquids pipelines.

Investment and other income improved in 1997 compared with the prior year due to the dilution gain on the Partnership, and higher contributions from investments in the Colombia pipeline project, the Partnership and Noverco. In 1996, the decline from 1995 amounts was due primarily to lower interest income on short term investments partially offset by improved performance in the Partnership and a higher contribution from the investment in Colombia. In 1996, the additional contribution from the Partnership can be attributed to cost reduction initiatives and the positive impact expansion programs had on system utilization. These factors were partially offset by the FERC decision regarding tariff rates.

Interest expense over the three year period reflects the impact of increased borrowings to support capital expenditures and acquisitions, largely mitigated by the impact of lower interest rates.

Income taxes, which are primarily calculated using the taxes payable method, increased over the three years consistent with improvements in pretax earnings. The effective tax rate for 1997 was 41.5% (1996 – 40.6%; 1995 – 33.8%). Commencing in 1996, the Revenue Canada change in assessing practice with respect to the deductibility of administrative overhead and rental equipment installation costs in the year incurred, resulted in higher current income taxes as compared with the previous year. These costs are now capitalized for both accounting and taxation purposes.

Liquidity and Capital Resources



The Corporation's cash generated from operations, supplemented by $2.3 billion in unutilized credit facilities, provide adequate resources to finance growth opportunities, debt repayments, and dividend distributions. *(For a further description of the Corporation's committed and uncommitted credit facilities, reference should be made to Note 9 to the Consolidated Financial Statements.)*

Operating Activities

Cash provided from operating activities declined in 1997 as working capital requirements more than offset the increase in earnings. In 1996, cash from operating activities increased over the prior year, reflecting the effect of higher earnings. The increase was partially offset by higher working capital requirements. Due to the seasonality of gas distribution operations and the fluctuating levels of gas in storage, cash provided from operating activities remains sensitive to changes in working capital.

Investing Activities

The increase in the level of investing activities over the last three years reflects the Corporation's aggressive growth strategy in a changing North American energy delivery and services market.

Included in long term investments in 1997 was the purchase for $332.4 million of $181.4 million of Noverco's preference shares and 32% of outstanding common shares. On October 1, 1997, in a related transaction, IPL Energy sold six million common shares to Noverco for cash proceeds of $287.1 million, which is reflected as an issuance of capital stock. Other long term investments made in 1997 reflect contributions to the Colombia pipeline project of U.S.$38.7 million (1996 – U.S.$47.0 million; 1995 – U.S.$13.2 million) and a $30.5 million investment in the Alliance Pipeline Project, a proposed natural gas pipeline extending from Fort St. John, British Columbia, to Chicago, Illinois.

Acquisition of subsidiaries and joint ventures consists of the December 1996 transaction whereby the Corporation acquired the remaining 15% of the common shares of Consumers Gas. The $248.6 million purchase price was financed in part by the exchange of common shares of the Corporation having a fair value of $105.1 million, with the remainder financed by variable rate borrowings. The acquisition of the joint venture interest in the Mustang pipeline accounted for the remaining investment in 1996. Investments made in 1995 represent the acquisition of feeder pipelines.

Capital additions required to meet expanding customer requirements for both Energy Transportation and Energy Distribution, combined with ongoing improvements and replacements of existing facilities, accounted for the increasing level of capital expenditures over the three year period. Energy Transportation capital expenditures in 1996 and 1997 reflected significant construction activity related to the first and second phases of the System Expansion Program, respectively. Energy Distribution capital expenditures over the three year period are the result of growth in the customer base.

Financing Activities

Over the three year period, the Corporation's level of financing activities reflected its growth and investment activity, and is evidenced by the significant increases in both the debt and equity components of its capital structure.

The Corporation's regulated pipeline and gas distribution operations issue long term debt, usually in the form of fixed rate debentures or medium term notes, primarily to finance capital additions and to maintain an appropriate capital structure. Debt related to non regulated activities has been incurred primarily to finance business acquisitions and investments in subsidiaries, and is supplemented with the issue of share capital. Funds for debt retirements are generated through cash provided from operating activities, as well as through the issuance of replacement debt.

During 1997, Energy Transportation issued $50 million in medium term notes and an additional $62 million in variable rate financing to support capacity expansions of the pipeline system and meet debt maturity obligations of $21 million. Consistent with its large capital expenditure program and to replace maturing long term obligations of approximately $70 million, Energy Distribution issued $200 million of medium term notes and effectively converted (through the use of long term interest rate swaps) approximately $100 million of short term borrowings into medium term debt maturing in 2002. To fund Corporate investment activities, the Corporation issued $155 million of variable rate financing and a $100 million medium term note.

In 1996, IPL Energy's operating segments issued $270 million under medium term note programs to finance capital expenditures and to meet debt maturities of $95 million, primarily in the Energy Distribution segment. During 1996, the Corporation also retired $70 million of fixed rate debt of the IPL (NW) System as a result of the Amending Agreement. The $152 million increase in variable rate financing primarily represented proceeds from the issue of commercial paper to finance the acquisition of the minority interest in Consumers Gas.

Financing activities in 1995 reflected the implementation of a long term financing strategy related to the Corporation's 1994 acquisition of Consumers Gas. Significant transactions complementing this strategy included the receipt of proceeds totaling $307 million on conversion of Convertible Debentures, the issuance of $312 million in long term fixed rate instruments and a $695 million reduction in the level of Corporate variable rate financing. The Energy Distribution segment issued $117 million of long term debt and met maturity obligations of $66 million. Energy Transportation issued $185 million under its medium term note program to retire approximately $109 million of commercial paper borrowings incurred in 1994 in conjunction with its capacity expansion program and to meet sinking fund requirements of $21 million.

The number of outstanding common shares has grown from 41 million at the beginning of 1995 to approximately 74 million at the end of 1997. In addition to shares issued on conversion of the Convertible Debentures, the acquisition of the 15% minority interest in Consumers Gas and the shares issued to Noverco, the Corporation has raised approximately $250 million of equity during the three year period. Significant equity issues include a $111 million public offering in October 1996 and a $125 million public offering in 1995. The Corporation's Dividend Reinvestment and Share Purchase Plan has also contributed over $80 million in additional equity since 1995.

Dividends paid over the past three years have reflected a regular quarterly dividend on an increasing number of common shares. In August 1997, the quarterly dividend was increased to $0.545 per quarter from $0.515. In August 1996, the quarterly dividend was increased to $0.515 per quarter from $0.50.

Financial Ratios

IPL Energy's key financial ratios continue to strengthen as the Corporation's business and financial strategies take hold.

Key Financial Ratios

	1997	1996	1995
Earnings coverage of interest	**2.4x**	2.3x	1.8x
Dividend payout ratio	**67.7%**	69.8%	89.1%
Debt to debt plus shareholders' equity [1]	**67.7%**	68.4%	69.1%
Return on average shareholders' equity	**14.2%**	15.0%	13.2%

1 For purposes of this ratio, equity includes minority interest.

The Corporation's debt management programs and improved earnings resulted in an interest coverage of 2.4 times in 1997, up from 2.3 times in 1996 and 1.8 times in 1995. The stronger earnings also resulted in the dividend payout ratio declining to 67.7% in 1997 from the 69.8% in 1996 and 89.1% in 1995, despite dividend rate increases in the third quarters of 1997 and 1996.

The Corporation continued to strengthen its equity base in 1997 resulting in a reduced debt to debt plus shareholders' equity ratio of 67.7% compared with 68.4% in 1996 and 69.1% in 1995. Largely as a result of the expanded equity base, the return on average shareholders' equity declined to 14.2% in 1997 from 15.0% in 1996 despite the higher 1997 earnings.

Credit reviews by the major bond rating agencies undertaken in 1997 resulted in an improved credit rating for the debentures of IPL Energy, while ratings for debentures issued by subsidiaries Consumers Gas and Interprovincial Pipe Line Inc. remained unchanged.

Canadian Bond Rating Agency Ratings

	IPL Energy	Interprovincial Pipe Line	Consumers Gas
Dominion Bond Rating Service	A(mid)/Stable	A(high)/Stable	A(high)/Stable
Canadian Bond Rating Service	A/Stable	A(high)/Stable	A/Stable

Financial Risk Exposure and Management

By virtue of its business operations, the Corporation is exposed to movements in the U.S./Canadian dollar exchange rate, interest rates and the price of natural gas. In order to minimize this risk for both its ratepayers and shareholders, the Corporation utilizes a variety of hedging instruments to create an offsetting position to specific exposures. All of these instruments are employed in connection with an underlying asset, liability or anticipated transaction, and are not used for speculative purposes. In implementing its hedging programs, the Corporation has established formal analysis and execution procedures, which require the prior approval of either the Board of Directors or a committee of senior management. Ongoing monitoring and senior management reporting procedures with respect to the hedging programs have also been established.

Foreign Exchange

In 1997, the Corporation established a hedging program to eliminate a portion of the long term exposure relating to U.S. dollar denominated investments. At the end of 1997, the Corporation had hedged future earnings of approximately U.S.$30 million per annum and U.S.$100 million on the redemption of the Corporation's investment in Colombia, thereby mitigating potential currency exposures on the anticipated earnings streams from, and redemption of, these U.S. dollar investments.

Interest Costs

To hedge against the effect of future interest rate movements on its short term and long term borrowing requirements, the Corporation enters into various interest related hedging instruments.

Natural Gas Prices

Under the regulatory framework governing the Corporation's natural gas distribution operations, the Corporation hedges the cost of a portion of future natural gas supply requirements. At December 31, 1997, approximately 15% of its forecast fiscal 1998 requirements, or 26.1 billion cubic feet, was hedged. As the cost of natural gas ultimately flows through to ratepayers in the form of regulated gas costs, the ratepayer realizes the results of this risk mitigation strategy. The regulator monitors the results of this hedging program.

A detailed description and analysis of these transactions, including the duration, carrying amounts and current valuations are included in Note 12 to the Consolidated Financial Statements. At December 31, 1997, no material credit risk exposure existed as the Corporation was not party to any off balance sheet financial instruments in a significant receivable position. Additionally, there were no material gains or losses deferred in relation to any of the Corporation's off balance sheet hedges of anticipated transactions at December 31, 1997 and 1996.

Future Prospects

IPL Energy anticipates continued earnings growth from its core operating segments in 1998. The recent increases in rate base and customer growth for the Energy Distribution business, combined with the benefit of additional capacity expansions for the Energy Transportation segment, and the full year impact of 1997 investments and acquisitions are expected to continue their positive contribution.

With the transformation of the Corporation from a "rate regulated" entity into a diversified energy transporter and service provider in North America and internationally, the risk profile of the Corporation is undergoing changes. The entry into new non regulated businesses will require more "at risk" capital to be spent, however, higher returns can also be expected. Such project costs are deferred only if there is a reasonable certainty that the outcome of the project will benefit future periods. Otherwise, provisions are made against the project costs or such costs are expensed upon abandonment of the project. As well, provisions are made for potential liabilities, if any, resulting from claims against the Corporation arising in the normal course of business including contested income tax reassessments. The ultimate outcome of these items cannot be reasonably estimated at this time. However, in the opinion of management, exposures in excess of the provisions made, if any, would not be material.

A major issue currently facing virtually all industries is known as the Year 2000 Computer Issue. In an attempt to save disk space, many computer systems and applications were originally programmed to ignore the first two digits of the year. This could cause many computer systems and applications to fail completely or to create erroneous results unless corrective measures are taken. The Corporation uses many computerized applications in its operational activities such as oil and gas flow control devices, as well as customer billing, collection and accounting.

In order to address this issue, executive responsibilities for the Year 2000 project have been established in each of the business units. The mandate of these executives extends to all facets of the initiative and is not limited to computer hardware and software modifications. In addition, a Year 2000 Corporate Advisory Group has been established at the IPL Energy level to oversee and assist in the resolution of obstacles to the success of the overall project. At the business unit levels, Year 2000 Program Management Offices have been established to coordinate all project activities, including the establishment of various management committees to facilitate the identification and resolution of all risks associated with the project.

The Corporation is utilizing both internal and external resources to identify, reprogram, and test all of its computer systems and applications for Year 2000 compliance. No material resource constraints have been encountered to date and none are anticipated for project completion.

In addition, the Corporation has replaced, or is in the process of replacing, certain key financial and operating information systems. The replacement of these systems should address Year 2000 readiness within the Corporation's internal information systems.

Furthermore, the Corporation is identifying key third parties with which it undertakes transactions, both domestically and internationally, including suppliers, customers, creditors, lenders and financial service organizations. The Corporation intends to assess the Year 2000 readiness of such key third party contacts and, if required, develop appropriate contingency plans to deal with any that are not Year 2000 compliant on a timely basis. However, despite the Corporation's best efforts, there can be no assurance that the systems of third parties with which the Corporation's systems interact will be Year 2000 compliant on a timely basis or that any such compliance failure would not have an adverse effect on the Corporation's operations or its financial results.

The Corporation expects its Year 2000 readiness project to be completed on a timely basis. The financial impact of the project on the Corporation has not been and is not anticipated to be material to its financial position or results of operations.

When used in this section, the words "anticipate", "expect", "project" and similar expressions are intended to identify forward looking statements. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, weather, economic conditions, etc. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected.

Liquids Pipelines

Energy Transportation

Over the two years ending December 31, 1997, the Corporation has completed one major expansion of the main Canadian/U.S. pipeline system (SEP I) and is currently constructing a second expansion (SEP II). The first expansion, which increased capacity of the main Canadian/U.S. pipeline by 120,000 barrels per day, was completed in late 1996. This project was complemented by the construction of a link between the Producers and Portal systems in order to increase overall utilization. Construction of the second expansion is estimated to total $140 million in Canada, and is anticipated to increase main line system capacity by a further 120,000 barrels per day.

The resulting increases in throughput are anticipated to benefit the Corporation's pipeline systems in 1998 and beyond. Under the new Incentive Tolling Agreement, IPL System earnings will remain sensitive in 1998 to maximizing system utilization and achieving operating cost efficiencies.

Future contributions from the Lakehead System are expected to remain comparable for 1998 with the construction of SEP II. Thereafter, the Lakehead System should benefit from the completion of the system expansion programs. However, given the level of ownership in this system, the effect of higher pipeline capacity should not be material to the Corporation.

The Amending Agreement related to the IPL (NW) System still remains subject to formal approval from the NEB. Assuming no significant changes to the Agreement, earnings from this system in 1998 are expected to be comparable with 1997 results.

Feeder Pipelines' earnings are expected to remain at 1997 levels as no significant expansions of these systems are planned. Earnings from International are expected to increase due to the full year impact of project completion in Colombia.

Energy Transportation's 1998 results are also anticipated to benefit from the Corporation's investments in the following projects:

Line 9 Reversal

The portion of the IPL System known as Line 9 comprises 517 miles of 30 inch pipeline extending from Sarnia to Montreal. The Corporation and four refiners are developing a project to reverse the direction of flow of Line 9 so that crude oil imported into Canada through the facilities of Portland Pipe Line Corporation and Montreal Pipe Line Limited can be transported in an east to west direction from Montreal to major refining centres in Ontario. At the commencement of operations, the Corporation anticipates having invested $90 million in the project. Capacity of the line is expected to increase from 160,000 barrels per day initially to 240,000 barrels in 1999.

On December 18, 1997, the NEB approved construction of facilities for the project, as well as the tolling methodology, which the Corporation, the refiners and the Canadian Association of Petroleum Producers agreed would be applicable to Line 9. The project is expected to be completed in the second half of 1998.

Wild Rose Pipeline

The proposed Wild Rose Pipeline is a 340 mile pipeline starting near Fort McMurray and extending to Hardisty, Alberta. The 30 inch pipeline, to be wholly owned by IPL Energy, is estimated to cost $375 million with completion targeted for late 1998. The pipeline is expected to have a capacity of 500,000 barrels per day and will initially be operated by Suncor Energy Inc. On August 15, 1997, Wild Rose Pipe Line Inc., a wholly owned subsidiary of IPL Energy, filed an amended application with the Alberta Energy Utilities Board for approval of the project. The application is still before the Board.

Gas Transmission

Terrace

In December 1997, the Corporation filed an application with the NEB for the first phase of a system expansion program referred to as the Terrace Expansion. The first phase is estimated to cost approximately $640 million in Canada, with a further U.S. $138 million to be spent by the Partnership in the United States. The expansion will provide the capability to transport a further 270,000 barrels per day of heavy crude oil. After allowing for anticipated light oil production declines, total system delivery would increase by 160,000 barrels per day. The expansion was developed in consultation with an industry task force and is designed to accommodate the significant growth of heavy crude oil and oil sands production announced in 1997. Construction consists of 36 inch diameter pipe along with associated pump stations in both Canada and the United States.

Alliance Pipeline

Alliance Pipeline is a proposed $3.6 billion natural gas pipeline extending 1,900 miles from Fort St. John, British Columbia, to Chicago which is expected to be completed by late 1999. During 1997, IPL Energy increased its interest in the project from 11% to 21%.

Regulatory filings were completed for both the Canadian and U.S. portions of the project. On July 30, 1997, the FERC granted preliminary approval on the U.S. portion of the line subject to environmental review. The NEB hearing commenced in November 1997 and will continue into 1998.

Vector Pipeline

Vector is an IPL Energy sponsored proposal for a U.S.$546 million pipeline that will extend 344 miles from Chicago to Dawn, Ontario. At Chicago, Vector will connect with the proposed Alliance Pipeline, and other natural gas transmission systems, all providing a transportation link for Western Canadian supplies. On September 30, 1997, Vector Pipeline successfully concluded its "Open Season" with Precedent Agreements tendered by shippers for capacity well in excess of the target of one billion cubic feet per day. An application to the FERC for the U.S. facilities has been filed, with a subsequent companion filing with the NEB for the Canadian facilities to be filed in the first quarter of 1998. The line is projected to be in service in November 1999. The Corporation expects to hold an approximate 35% interest in the project.

Millennium Pipeline

IPL Energy intends to swap a portion of its interest in the Vector Pipeline with Columbia Gas Transmission Corporation of Fairfax, Virginia, in order to obtain an interest in the proposed Millennium Pipeline. The amounts of the interest are being finalized. The U.S.$650 million Millennium Pipeline would extend 380 miles from the middle of Lake Erie to a point near New York City. Millennium would be connected to the growing natural gas distribution/storage hub at Dawn by a separate pipeline proposal, thereby providing the pipeline with the ability to transport Western Canadian and U.S. Midwest natural gas received at Dawn to New York or other Eastern U.S. markets.

Tidal Energy Marketing Inc.

Tidal Energy Marketing Inc., an equally owned venture with Gulf Canada Resources Limited, is expected to begin operations in early 1998, and will be the largest independent crude oil and liquids marketer currently in Canada. The venture combines Gulf's expertise as a wholesale marketer of liquids with IPL Energy's knowledge of transportation and storage systems. Initially, the venture expects to market in excess of 250,000 barrels per day and be ideally positioned to offer producers unique marketing services to gain a competitive advantage in North American markets.

Energy Distribution

The Consumers' Gas Company Ltd.
Noverco Inc.
Consumers Gas Energy Inc., proposed Nova Scotia distribution rights
Consumers Gas Energy Inc., proposed New Brunswick distribution rights

Energy Distribution

For Consumers Gas' 1998 fiscal year, the OEB has approved a rate of return of 10.3% on a deemed 35% equity component and a rate base of $3,059 million, representing an 8% growth from the 1997 approved rate base. For 1998, contributions from Consumers Gas could be lower than 1997 levels as the lower allowed equity return is not anticipated to be fully offset by customer additions and rate base growth.

Since customers are billed on a volume basis, the Corporation's ability to recover its total revenue requirement (i.e., the cost of providing service) depends on achieving the forecast distribution volumes established in the ratemaking process. Weather during the year has a significant effect on sales to the higher margin residential and commercial markets (which account for approximately two-thirds of total distribution volumes) as the majority of gas distributed to these markets is ultimately used for space heating. Sales to large volume commercial, industrial and transportation customers are more susceptible to prevailing economic conditions, including the pricing of competitive energy sources for those customers with the ability to switch to alternate fuels. Customer additions are important to all market sectors as expansion adds to the overall consumption of natural gas.

Unbundling

The environment in which Consumers Gas conducts its business is changing rapidly and pervasively. The most advanced example of the change is the gas marketing component of the traditional natural gas distribution business in which the distribution utility has supplied natural gas to its entire customer base. In 1997, gas supplied by Consumers Gas was approximately 38% of the gas supplied to its customer base, while transportation service deliveries accounted for 20% and the remaining 42% was purchased directly by customers or supplied by independent brokers or marketers. Consumers Gas performs distribution and billing services for these brokers and marketers.

Most of the recent changes in the regulatory business environment deal with the broader concept of "unbundling" which is emerging in North America. "Unbundling" involves the removal from the utility of business activities which are subject to open market competition. Consumers Gas currently conducts a number of such business activities. In its most recent application to the OEB for the establishment of fiscal 1999 rates, Consumers Gas filed its proposed plans to transfer certain of these businesses and related activities and assets to one or more affiliates. The historical unrecorded deferred income taxes which relate to these "unbundled" activities will also remain subject to regulatory determination.

The plan includes the potential for the transfer of certain customer information systems to an affiliate effective as of, or prior to, October 1, 1998. Some of these systems are in the process of being developed. The Corporation is monitoring and evaluating the completion cost of these systems including their functionality beyond the needs of core utility operations, particularly in relation to their viability in the evolving non regulated, competitive business environment. If found commercially not viable, the systems' functionality could be reduced or modified, potentially resulting in additional costs or expensing of non functional components. The Corporation is also requesting approval for transactions between Consumers Gas and the affiliate for billing and related customer services to be provided by the affiliate to Consumers Gas and, in addition, for management and administrative services to be provided by Consumers Gas to the affiliate.

The unbundling would provide an opportunity for non core business activities to grow outside of regulation. The scope of this unbundling has yet to be determined but is expected to follow along the same lines as another major gas distribution company in Ontario, which recently applied to the OEB to unbundle its appliance rentals, sales, financing, and service programs by transferring them to an unregulated affiliate. Regardless of the extent to which Consumers Gas is ultimately unbundled, it may face competition in the near future from large domestic and foreign based competitors.

Incentive regulation, which the OEB recommended as part of the "Advisory Report to the Minister of Energy, Science and Technology" as one of the amendments to the Ontario Energy Board Act, may also accompany unbundling. Consumers Gas, in its current application, has applied for an incentive mechanism in relation to the Operation and Maintenance component of its cost of service which would, if approved, be effective during the 2000 through 2002 fiscal years. A move to incentive regulation should have favourable implications for Consumers Gas, by providing the opportunity to reduce regulatory costs and by providing the potential of additional earnings through the application of incentive mechanisms.

Noverco

Through its equity investment in Noverco, IPL Energy becomes a partner with Hydro-Québec and Gaz de France (the other principal shareholders of Noverco) in gas distribution systems in Quebec and the United States, as well as in the development and operation of gas pipelines serving Quebec and Vermont. Additionally, IPL Energy will continue to earn annual dividends on its Noverco preferred share investment at a rate 445 basis points above the 10 year Canadian Government Bond yield. Noverco's contribution to the consolidated results will improve in 1998 due to the full year impact of the investment in Preference Shares.

Cornwall Electric

The City of Cornwall has agreed, subject to approvals, to sell Cornwall Electric to IPL Energy for $68 million. Cornwall Electric, which serves 25,000 residential and business customers in Cornwall, Ontario, and the surrounding area, represents an opportunity for IPL Energy to expand beyond natural gas distribution into other complementary services by entering the electricity distribution business. The transaction is expected to close in early 1998.

Consumersfirst

In April 1997, Consumersfirst Ltd., a wholly owned subsidiary, was launched to spearhead IPL Energy's entry into the unregulated retail energy services market in Ontario. The initial focus of Consumersfirst is to provide natural gas brokerage services to customers in Ontario with plans to deliver integrated energy products and services and satisfy customer demand for service, convenience and innovation.

The plans for Consumersfirst include expanding its products and services across Ontario and in selected locations in North America. In November 1997, Consumersfirst opened the first of five planned retail natural gas appliance stores in British Columbia.

Gas Distribution

In March 1997, IPL Energy and Nova Scotia Power Inc. announced that they will jointly seek natural gas distribution rights for Sable Island gas in Nova Scotia. The companies plan to apply for the rights to distribute natural gas in Nova Scotia during 1998, utilizing the regulatory process established by the Government of Nova Scotia. Similar prospects in the Province of New Brunswick are also being pursued.

Corporate

The Corporate segment reflects other investing and financing activities undertaken by IPL Energy and costs associated with financing non regulated activities. Results of this segment are primarily sensitive to the level of debt balances and to interest rate fluctuations on the variable rate component. In 1998, net costs of the Corporate segment are expected to be comparable with 1997 levels. Based on the variable rate debt levels at December 31, 1997, a 1% fluctuation in interest rates would affect this segment's results by approximately $3 million.

Management's Report

To the Shareholders of IPL Energy Inc.

Management is responsible for the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts that reflect management's judgement and best estimates. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has established systems of internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The internal control system includes an internal audit function and an established code of business conduct.

The Board of Directors and its committees are responsible for all aspects related to governance of the Corporation. The Audit, Finance & Risk Committee of the Board, composed of directors who are not officers or employees of the Corporation, has a specific responsibility for ensuring that management fulfills its responsibilities for financial reporting and internal controls related thereto. The Committee meets with management, internal auditors and independent auditors to review the consolidated financial statements and the internal controls as they relate to financial reporting. The Audit, Finance & Risk Committee reports its findings to the Board for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Price Waterhouse, appointed by the shareholders as the Corporation's independent auditors, conducts an examination of the consolidated financial statements in accordance with generally accepted auditing standards.

B. F. MacNeill
President & Chief Executive Officer

D. P. Truswell
Senior Vice President & Chief Financial Officer

Auditors' Report

To the Shareholders of IPL Energy Inc.

We have audited the consolidated statements of financial position of IPL Energy Inc. as at December 31, 1997 and 1996 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1997 in accordance with Canadian generally accepted accounting principles.

Price Waterhouse
Chartered Accountants

Calgary, Alberta, Canada
January 16, 1998

Consolidated Statement of Earnings

(Canadian dollars in millions, except per share amounts)

Year ended December 31,	1997	1996	1995
Operating Revenue			
Gas sales	**1,763.9**	1,749.8	1,694.4
Transportation	**537.3**	516.1	477.9
Other	**218.8**	192.0	150.5
	2,520.0	2,457.9	2,322.8
Expenses			
Gas costs	**1,036.4**	1,064.3	1,123.0
Operating and administrative	**638.4**	576.3	515.8
Depreciation	**274.0**	237.0	221.5
	1,948.8	1,877.6	1,860.3
Operating Income	**571.2**	580.3	462.5
Investment and Other Income (Note 3)	**76.5**	31.7	39.1
Interest Expense (Note 4)	**(276.1)**	(271.3)	(281.8)
Earnings Before Undernoted	**371.6**	340.7	219.8
Income Taxes (Note 5)	**(154.3)**	(138.3)	(74.4)
	217.3	202.4	145.4
Minority Interest (Note 7)	**–**	(22.1)	(15.0)
Earnings	**217.3**	180.3	130.4
Earnings Per Share (Note 10)	**3.15**	2.90	2.30

Consolidated Statement of Retained Earnings

(Canadian dollars in millions, except per share amounts)

Year ended December 31,	1997	1996	1995
Retained Earnings at Beginning of Year	**266.5**	212.1	198.0
Earnings	**217.3**	180.3	130.4
Dividends	**(147.1)**	(125.9)	(116.3)
Retained Earnings at End of Year	**336.7**	266.5	212.1
Dividends Per Share	**2.12**	2.03	2.00

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statement of Cash Flows

(Canadian dollars in millions)

Year ended December 31,	1997	1996	1995
Cash Provided from Operating Activities			
Earnings	217.3	180.3	130.4
Charges (credits) not affecting cash:			
Depreciation	274.0	237.0	221.5
Deferred income taxes	(0.1)	12.6	(14.9)
Minority interest	–	22.1	15.0
Other	(3.0)	12.8	13.8
Changes in working capital:			
Accounts receivable and other	(75.5)	(82.2)	(9.6)
Gas in storage	(30.8)	13.9	58.6
Short term borrowings	(48.0)	45.4	50.7
Accounts payable and other	92.9	92.0	(2.8)
Interest payable	5.2	4.1	7.3
	432.0	538.0	470.0
Investing Activities			
Short term investments, net	–		36.4
Long term investments (Note 6)	(434.8)	(65.0)	(19.0)
Acquisition of subsidiaries and joint ventures (Note 7)	(3.6)	(168.7)	(85.3)
Additions to property, plant and equipment	(651.4)	(560.5)	(428.7)
Other	(11.3)	(28.2)	(13.6)
	(1,101.1)	(822.4)	(510.2)
Financing Activities			
Variable rate financing, net	178.6	152.0	(804.0)
Fixed rate financing, net	359.5	107.4	835.5
Minority interest	–	(8.6)	(8.0)
Capital stock	315.6	141.5	152.4
Dividends	(147.1)	(125.9)	(116.3)
	706.6	266.4	59.6
Increase (Decrease) in Cash	37.5	(18.0)	19.4
Cash at Beginning of Year	13.8	31.8	12.4
Cash at End of Year	51.3	13.8	31.8

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statement of Financial Position

(Canadian dollars in millions)

December 31,	1997	1996
Assets		
Current Assets		
Cash	**51.3**	13.8
Accounts receivable and other	**436.6**	361.1
Gas in storage	**309.9**	279.1
	797.8	654.0
Long Term Investments (Note 6)	**517.3**	177.1
Deferred Charges and Other	**142.1**	123.0
Property, Plant and Equipment, Net (Note 8)	**5,215.0**	4,807.0
	6,672.2	5,761.1
Liabilities and Shareholders' Equity		
Current Liabilities		
Short term borrowings	**398.8**	446.8
Accounts payable and other	**493.3**	400.4
Interest payable	**70.9**	65.7
Current portion of long term liabilities	**409.4**	92.1
	1,372.4	1,005.0
Long Term Debt (Note 9)	**3,166.4**	2,939.0
Deferred Credits	**59.8**	47.5
Deferred Income Taxes	**374.2**	373.6
Commitments and Contingencies (Note 15)		
	4,972.8	4,365.1
Shareholders' Equity		
Capital stock (Note 10)		
Issued – 74,164,000 common shares (1996 – 67,490,000)	**1,441.8**	1,126.2
Retained earnings	**336.7**	266.5
Foreign currency translation adjustment	**12.9**	3.3
Reciprocal shareholding (Note 6)	**(92.0)**	–
	1,699.4	1,396.0
	6,672.2	5,761.1

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Approved by the Board:

Director

Director

Notes to the 1997 Consolidated Financial Statements

(Canadian dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies

The Corporation's primary business activities are the transportation and distribution of energy. Energy Transportation includes the movement of crude oil and other hydrocarbons by pipeline through the ownership and/or operation of various pipeline systems located in Canada, the United States and Colombia. Energy Distribution consists primarily of the distribution of natural gas and related retail energy services, and is conducted mainly through utility operations serving south central and eastern Ontario.

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with the historical cost accounting standards of the International Accounting Standards Committee.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures.

Basis of Presentation

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and the proportionate share of the accounts of its joint ventures. Investments in entities which are not subsidiaries or joint ventures, but over which the Corporation exercises significant influence, are accounted for using the equity method. Other investments are accounted for on the cost basis.

The Corporation's Energy Distribution business is conducted primarily through a wholly owned subsidiary, The Consumers' Gas Company Ltd. The Corporation consolidates the September 30 fiscal year results of Consumers Gas on a quarter lag basis, which reflects the results of Consumers Gas operations in accordance with its regulatory, tax and operating cycles. Accordingly, references to "December 31" reflect the financial position of Consumers Gas as at September 30, and references to the "year ended December 31" include the results of Consumers Gas for its fiscal year ended September 30.

Regulation

The Corporation's primary business activities are subject to regulation by various authorities, including the National Energy Board (NEB) for Canadian Energy Transportation operations, the Federal Energy Regulatory Commission (FERC) for U.S. Energy Transportation operations, and the Ontario Energy Board (OEB) for the Energy Distribution segment. These and other regulatory authorities exercise statutory authority over various matters such as construction, rates and underlying accounting practices, and ratemaking agreements with shippers. In order to achieve proper matching of revenues and expenses, the Corporation follows accounting practices prescribed by the regulators or stipulated in approved ratemaking agreements. Accordingly, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under generally accepted accounting principles applicable to non regulated operations.

Foreign Currency Translation

The Corporation's functional currency for its foreign activities is the U.S. dollar. Associated operating activities are self sustaining and are translated into Canadian dollars using the current rate method. Assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the date of the consolidated statement of financial position. Revenue and expense items are translated at exchange rates prevailing during the year. Gains and losses resulting from these translation adjustments are deferred as a separate component of shareholders' equity until there is a realized reduction of the foreign investment.

The Corporation's foreign investing and financing activities are integrated and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at rates of exchange in effect at the date of the consolidated statement of financial position. Non monetary assets and liabilities are translated at historical rates of exchange. Income and expense items are translated at exchange rates prevailing during the year, except for items relating to non monetary assets and liabilities which are translated at the applicable historical rates of exchange. Gains and losses resulting from these translation adjustments are included in earnings.

Revenue Recognition

Revenue derived from the transportation of crude oil and other liquid hydrocarbons is recognized primarily upon delivery. Revenue from the distribution of natural gas is recorded when billed, on the basis of meter readings or estimates made each month, and is adjusted for unbilled revenue in accordance with the underlying rate design.

Income Taxes

The Corporation recovers income tax expense based on the taxes payable method when prescribed by the regulators for ratemaking purposes or when stipulated in ratemaking agreements. Under this method, no provision is made for income taxes deferred as a result of timing differences in the recognition of revenues and expenses for income tax and financial statement purposes. This method is followed for accounting purposes as there is reasonable expectation that all such taxes will be recovered through rates when they become payable. In all other instances, the tax allocation method of accounting is followed.

Cash

Cash includes short term deposits, which are all highly marketable securities with a maturity of three months or less when purchased. Short term deposits are held to maturity and valued at cost.

Gas in Storage

Supplies of natural gas are costed into inventory at prices as approved by the OEB in the determination of customer sales rates. The actual cost of gas purchased includes the effect of any natural gas price risk management activities. The difference between the approved price and the actual cost of the gas purchased is deferred for future disposition as approved by the OEB.

Deferred Charges

Deferred charges related to projects which may benefit future periods are capitalized upon completion and amortized over the life of the project, or expensed upon abandonment of the project. Deferred financing charges are amortized on the straight line basis over the life of the related debt. Unamortized financing charges related to refinanced debt, together with the costs of issuing replacement debt, are deferred and amortized over the life of the replacement issues.

Property, Plant and Equipment

Expenditures for system expansion and major renewals and betterments are capitalized; maintenance and repair costs are expensed as incurred. Regulated operations in Canada follow the practice of capitalizing, at rates authorized by the regulatory authorities, an allowance for interest during construction. When prescribed by the regulator, Canadian Energy Transportation operations also capitalize an allowance for equity funds used during construction, at authorized rates.

Contributions in aid of construction of Energy Distribution assets are deducted from the cost of acquiring property, plant and equipment, with subsequent depreciation calculated on the net cost.

Depreciation

Depreciation of property, plant and equipment is provided on the straight line basis over their estimated service lives. When property, plant and equipment are retired or otherwise disposed of, the cost less net proceeds is charged to accumulated depreciation. For unusual disposals, the gain or loss arising on disposition is included in earnings.

A provision for Energy Distribution future removal and site restoration costs is recorded against, and recovered through, depreciation at rates approved by the OEB. Actual costs incurred are charged to accumulated depreciation. Similar costs are not recovered through tolls for Energy Transportation activities as regulatory approval has not been sought and the recovery method and timing have not been determined. No provision has been made for future pipeline removal and site restoration costs since it is expected that these costs will be recovered through pipeline tolls.

Off Balance Sheet Financial Instruments

Gains and losses on financial instruments used to hedge the Corporation's self sustaining investment in Colombia are deferred and included in the cumulative translation adjustment. Amounts received or paid under financial instruments used to hedge earnings from U.S. dollar denominated operations are recognized concurrently with the hedged earnings. Amounts received or paid under financial instruments used to hedge purchases of natural gas are recognized as part of the cost of the underlying purchases. For other off balance sheet financial instruments, amounts received or paid, including deferred gains and losses realized upon settlement, are recognized over the life of the underlying hedged items.

Postretirement Benefits

Pension costs and obligations for Energy Transportation's defined benefit pension plans are determined using the projected benefit method and are charged to earnings as services are rendered. For the segment's defined contribution plan, contributions made by the Corporation are expensed as pension costs. For Energy Distribution, only contributions made to the defined benefit pension plan are expensed as pension costs, consistent with the ratemaking process.

The Corporation also provides postretirement benefits other than pensions, including group health care and life insurance benefits for eligible retirees, their spouses and qualified dependants. For Canadian Energy Transportation and Distribution operations, these costs are charged to earnings as incurred. For U.S. operations, the cost of such benefits is accrued during the years the employees render service.

Comparative Amounts

Certain comparative amounts are reclassified to conform with the current year's financial statement presentation.

2. Segmented Information

Energy Transportation

The Corporation's main crude oil pipeline system is the primary transporter of Western Canadian crude oil production. The system extends across the Canadian prairies to the major refining centres in the Great Lakes region of the United States and continues into Ontario and Quebec. The Canadian portion of the system is owned and operated by a wholly owned subsidiary; the U.S. portion is operated and 16.6% owned by a wholly owned U.S. subsidiary through a Master Limited Partnership. The Corporation also owns feeder pipeline systems in North America through wholly owned subsidiaries. This segment also reflects the Corporation's long term investment in a crude oil pipeline project in Colombia for which the Corporation also acts as an operator. The costs of investigation, evaluation and development of new energy transportation projects are also included in this segment.

Energy Distribution

The Energy Distribution segment consists largely of utility operations which serve over 1.4 million residential, commercial, industrial and other customers, primarily in south central and eastern Ontario. Contributions from the Corporation's strategic investment in Noverco Inc. (Note 6), as well as revenue and expenses associated with emerging energy services, are included in the results of this business segment. The segment also includes costs of investigation, evaluation and development of new energy distribution projects.

Corporate

The Corporate segment reflects other investing and financing activities including general corporate investments and costs associated with financing non regulated activities.

Business Segments

Year ended December 31, 1997	Energy Transportation	Energy Distribution	Corporate	Total
Operating revenue				
Gas sales	–	1,763.9	–	1,763.9
Transportation	511.4	25.9	–	537.3
Other	6.7	212.1	–	218.8
	518.1	2,001.9	–	2,520.0
Expenses				
Gas costs	–	1,036.4	–	1,036.4
Operating and administrative	246.4	386.7	5.3	638.4
Depreciation	85.8	186.0	2.2	274.0
	332.2	1,609.1	7.5	1,948.8
Operating income (loss)	185.9	392.8	(7.5)	571.2
Investment and other income	58.1	11.6	6.8	76.5
Interest expense	(66.6)	(164.1)	(45.4)	(276.1)
Earnings (loss) before undernoted	177.4	240.3	(46.1)	371.6
Income taxes	(54.9)	(116.1)	16.7	(154.3)
Earnings (loss)	122.5	124.2	(29.4)	217.3
Earnings (loss) per share	1.78	1.80	(0.43)	3.15
Capital expenditures	214.8	416.4	20.2	651.4

December 31, 1997				
Total assets	2,109.9	4,424.0	138.3	6,672.2
Investments accounted for by the equity method	103.3	58.8	12.1	174.2

Year ended December 31, 1996	Energy Transportation	Energy Distribution	Corporate	Total
Operating revenue				
Gas sales		1,749.8	–	1,749 8
Transportation	503.0	13.1	–	516 1
Other	5.7	186.3	–	192 0
	508.7	1,949.2	–	2,457 9
Expenses				
Gas costs	–	1,064.3	–	1,064 3
Operating and administrative	224.4	345.5	6 4	576 3
Depreciation	88.4	146.6	2 0	237 0
	312.8	1,556.4	8 4	1,877 6
Operating income (loss)	195.9	392.8	(8.4)	580 3
Investment and other income	31.4	4.4	(4.1)	31 7
Interest expense	(70.2)	(158.7)	(42 4)	(271 3)
Earnings (loss) before undernoted	157.1	238.5	(54 9)	340.7
Income taxes	(59.7)	(104.6)	26.0	(138 3)
Minority interest	–	(22.1)	–	(22.1)
Earnings (loss)	97 4	111.8	(28 9)	180.3
Earnings (loss) per share	1 57	1.79	(0 46)	2.90
Capital expenditures	164.8	392 9	2.8	560 5

December 31, 1996				
Total assets	1,785.6	3,869.2	106 3	5,761 1
Investments accounted for by the equity method	63.2	–	12.0	75.2

Year ended December 31, 1995	Energy Transportation	Energy Distribution	Corporate	Total
Operating revenue				
Gas sales	–	1,694.4	–	1,694.4
Transportation	464.9	13.0	–	477.9
Other	2.7	147.8	–	150.5
	467.6	1,855.2	–	2,322.8
Expenses				
Gas costs	–	1,123.0	–	1,123.0
Operating and administrative	199.6	317.4	(1.2)	515.8
Depreciation	89.0	131.4	1.1	221.5
	288.6	1,571.8	(0.1)	1,860.3
Operating income	179.0	283.4	0.1	462.5
Investment and other income	22.7	2.4	14.0	39.1
Interest expense	(73.3)	(149.8)	(58.7)	(281.8)
Earnings (loss) before undernoted	128.4	136.0	(44.6)	219.8
Income taxes	(46.6)	(45.5)	17.7	(74.4)
Minority interest	–	(15.0)	–	(15.0)
Earnings (loss)	81.8	75.5	(26.9)	130.4
Earnings (loss) per share	1.44	1.33	(0.47)	2.30
Capital expenditures	82.5	345.4	0.8	428.7

December 31, 1995				
Total assets	1,611.0	3,475.6	90.4	5,177.0
Investments accounted for by the equity method	34.3	–	22.7	57.0

3. Investment and Other Income

Year ended December 31,	**1997**	1996	1995
Long term investments	**74.5**	21.1	21.2
Short term investments	–	3.0	6.2
Allowance for equity funds used during construction	**3.2**	2.3	1.0
Other	**(1.2)**	5.3	10.7
	76.5	31.7	39.1

4. Interest Expense

Year ended December 31,	1997	1996	1995
Long term debt	**275.3**	265.8	269.2
Short term borrowings	**9.8**	14.7	19.4
Capitalized	**(9.0)**	(9.2)	(6.8)
	276.1	271.3	281.8

The weighted average interest rate on short term borrowings (which primarily finance gas in storage and other working capital items) at December 31, 1997, including the effect of hedging instruments, was 4.2% (1996 – 5.1%; 1995 – 6.6%).

5. Income Taxes

The geographic components of pretax earnings and income taxes were as follows:

Year ended December 31,	1997	1996	1995
Earnings before income taxes and minority interest			
Canada	**279.2**	278.2	171.3
United States	**69.9**	51.2	42.6
Other	**22.5**	11.3	5.9
	371.6	340.7	219.8
Current income taxes			
Canada	**134.9**	97.0	58.2
United States	**18.1**	27.9	30.8
Other	**1.4**	0.8	0.3
	154.4	125.7	89.3
Deferred income taxes			
Canada	**(5.0)**	22.1	(0.9)
United States	**4.9**	(9.5)	(14.0)
	(0.1)	12.6	(14.9)
Income Taxes	**154.3**	138.3	74.4

Deferred income taxes have arisen as a result of the following items:

Year ended December 31,	1997	1996	1995
Timing of recognition of regulatory deferral accounts	**–**	28.7	–
Transfer of U.S. pipeline business to Master Limited Partnership	**2.3**	(8.2)	(15.7)
Other	**(2.4)**	(7.9)	0.8
	(0.1)	12.6	(14.9)

Accumulated deferred income taxes which have not been recorded in the accounts amounted to $486.6 million at December 31, 1997 (1996 – $466.4 million). Had the deferred method of tax allocation been prescribed by the regulatory authorities for ratemaking purposes, such amounts would have been recorded and recovered in rates to date.

The income tax provision differs from the amount that would have been expected using the combined Canadian federal and provincial statutory income tax rate. The difference results from the items shown in the following table:

Year ended December 31,	1997	1996	1995
Earnings before income taxes and minority interest	**371.6**	340.7	219.8
Statutory income tax rate	**44.6%**	44.6%	44.6%
Income taxes at statutory rate	**165.7**	152.0	98.0
Increase (decrease) resulting from:			
Non provision of deferred income taxes on regulated operations	**(20.2)**	(18.4)	(38.6)
Non deductible items, net	**15.0**	10.9	10.3
Lower effective foreign tax rates	**(17.5)**	(9.9)	(6.3)
Income taxes recoverable from customers	**–**	(6.9)	–
Large Corporations Tax in excess of surtax	**7.5**	8.1	8.0
Other	**3.8**	2.5	3.0
Income taxes	**154.3**	138.3	74.4
Effective income tax rate	**41.5%**	40.6%	33.8%

6. Long Term Investments

December 31,	1997	1996
Noverco Inc.		
Preference shares	**181.4**	–
Common shares	**150.8**	–
Reciprocal shareholding	**(92.0)**	–
	240.2	–
Colombia Pipeline Project	**161.7**	101.9
U.S. Master Limited Partnership	**59.8**	33.9
Other	**55.6**	41.3
	517.3	177.1

Noverco Inc.

On August 27, 1997, the Corporation purchased Noverco preference shares for $181.4 million and 32% of Noverco's common shares for $151.0 million. Noverco is a holding company which has, as its principal asset, an 80% interest in Gaz Métropolitain and Company, Limited Partnership, which is engaged in natural gas distribution in Quebec and Vermont, and which also holds a 50% interest in Trans Quebec & Maritimes Pipeline Inc., which owns and operates a pipeline transporting natural gas in Quebec.

The Corporation also sold six million of its common shares to Noverco for total proceeds of $287.1 million. As a result of the reciprocal shareholdings, the Corporation has a pro rata interest of 2.59% in its own shares. Accordingly, both the investment in Noverco and shareholders' equity have been reduced by the reciprocal shareholding of $92.0 million. This acquisition was financed by a combination of debt and the related equity issued to Noverco. Noverco also acquired a warrant to purchase from the Corporation 1.5 million additional IPL Energy common shares on June 30, 1998 at a price of $51.00 per share.

The investment in common shares of Noverco is accounted for on the equity basis while the investment in preference shares is accounted for at cost. The investment in the common shares of Noverco includes $131.3 million representing the unamortized excess of the purchase price over the net book value of those shares at the date of acquisition. For equity accounting purposes the excess was allocated to property, plant and equipment, on the basis of estimated fair values, and is being amortized over the economic life of such assets. The preference shares, which are non voting and redeemable on July 2, 2031, entitle the Corporation to a cumulative dividend based on the yield of 10 year Government of Canada bonds plus 4.45%. In 1997, earnings from Noverco amounted to $6.9 million. At December 31, 1997, the carrying value of the investment in Noverco common shares includes unremitted equity earnings of $0.5 million.

Colombia Pipeline Project

Pursuant to an agreement with a consortium of crude oil producers/shippers, the Corporation has made a long term investment in a pipeline project in Colombia. From time to time, the Corporation was required to provide further funds upon the call of the parties to the agreement. During 1997, the Corporation invested U.S.$38.7 million in the project (1996 – U.S.$47.0 million; 1995 – U.S.$13.2 million). At December 31, 1997, the Corporation had no remaining commitment to provide further funds. Under a separate agreement, the Corporation acts as one of the operators of the project and earns operating fees.

The Corporation earns a fixed rate of return on its investment effective January 1, 1995 and has no residual interest in the assets of the project. Accordingly, the investment is accounted for on the cost basis. The investment is to be redeemed in equal payments over a ten year period. Subject to certain conditions, redemption may commence in 2003 but, in any event, no later than 2012. Earnings amounted to $18.5 million in 1997 reflecting the fixed rate of return on the investment (1996 – $8.9 million; 1995 – $4.8 million).

U.S. Master Limited Partnership

The portion of the main pipeline system located in the United States is owned by Lakehead Pipe Line Partners, L.P., a U.S. Master Limited Partnership. The Corporation's wholly owned U.S. subsidiary, Lakehead Pipe Line Company, Inc., holds an equity interest of approximately 16.6% in the Partnership, and manages and operates the U.S. pipeline business as the General Partner.

The Corporation's interest in the net income of the Partnership, adjusted for the allocation of depreciation on an historical cost basis for assets contributed on formation of the Partnership, and including incentive distributions amounted to $26.4 million (1996 – $17.1 million; 1995 – $13.0 million). In 1997, the Corporation received cash distributions of $21.8 million from the Partnership (1996 – $16.8 million; 1995 – $16.4 million). The carrying value of the Corporation's investment in the Partnership includes unremitted equity earnings of $13.5 million (1996 – $8.9 million).

In October 1997, the Partnership completed a public issue of additional Partnership Units. As the Corporation elected not to participate in this offering its effective equity interest in the Partnership was reduced from 18% to 16.6%. The proceeds received by the Partnership were allocated among the capital accounts of the unitholders based upon the increase in Partnership net assets attributable to each interest as a result of the issue. The Corporation's pro rata share of Partnership net assets increased by $16.3 million, which was recognized in earnings in 1997.

Lakehead Services, Limited Partnership facilitates the financing of the Partnership. The Corporation owns a 99% limited partner interest in the Services Partnership and the Partnership holds a 1% general partner interest. The Services Partnership has a Revolving Credit Facility Agreement under which it had utilized U.S.$52.0 million at December 31, 1997 and 1996. In conjunction with its borrowings under this facility, the Services Partnership has irrevocably placed U.S. government securities in a trust to be used solely for satisfying scheduled payments of both interest and principal on these borrowings. The trust assets at December 31, 1997 amounted to U.S.$57.1 million (1996 – U.S.$57.0 million). This transaction has been recognized as an in substance defeasance and the debt is considered to be extinguished.

7. Acquisition of Subsidiaries and Joint Ventures

Consumers Gas

On December 9, 1996, the Corporation acquired the remaining 15% of the common shares of Consumers Gas. The purchase price of $248.6 million was financed by the exchange of 2,645,000 common shares of the Corporation having a fair value of $105.1 million, together with the proceeds of variable rate financing. This investment, which was accounted for using the purchase method, exceeded the book value of the minority interest acquired by $105.0 million which was allocated to property, plant and equipment, on the basis of estimated fair values, and is being amortized over the economic life of such assets.

Mustang Pipeline

On October 31, 1996, the Corporation acquired for U.S.$18.6 million a 30% joint venture interest in the Mustang crude oil pipeline which runs from Lockport to Patoka, Illinois, and is operated by a third party. The Corporation's interest in the joint venture is represented primarily by its proportionate share of the carrying value of the joint venture's property, plant and equipment. During 1997, the Corporation recorded earnings of $0.5 million (1996 – $0.3 million) from the joint venture.

8. Property, Plant and Equipment, Net

December 31, 1997	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
Energy Transportation	3.6%	2,724.8	1,065.9	1,658.9
Energy Distribution	2.6%	3,881.9	365.2	3,516.7
Corporate	7.3%	53.9	14.5	39.4
		6,660.6	1,445.6	5,215.0

December 31, 1996	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
Energy Transportation	3.5%	2,505.0	1,002.7	1,502.3
Energy Distribution	2.5%	3,527.0	248.5	3,278.5
Corporate	5.1%	38.4	12.2	26.2
		6,070.4	1,263.4	4,807.0

The average depreciation rate for the Energy Distribution segment, after inclusion of a provision for future removal and site restoration costs, is 4.8% (1996 – 4.0%).

9. Debt

Long Term Debt

December 31,	Weighted Average Interest Rate	Maturity	1997	1996
Regulated Operations				
Energy Transportation				
Fixed rate [1]	8.8%	1998-2027	767.5	738.9
Variable rate	4.0%		23.0	–
			790.5	738.9
Energy Distribution				
Fixed rate	9.1%	1998-2026	1,549.4	1,397.2
Other [2]	7.1%		112.8	33.2
Preference shares			100.0	100.0
			1,762.2	1,530.4
Total regulated operations			2,552.7	2,269.3
Non Regulated Operations				
Fixed rate [3]	8.4%	1998-2002	403.3	303.4
Variable rate	4.0%		606.1	450.6
Total non regulated operations			1,009.4	754.0
Total long term debt			3,562.1	3,023.3
Current portion of long term debt			(395.7)	(84.3)
Long term debt			3,166.4	2,939.0

1 Includes $49.4 million of debentures (1996 – $62.2 million) secured by a first mortgage on specific pipeline properties and the assignment of the benefits of a shipping agreement.

2 Primarily comprised of commercial paper borrowings effectively converted into long term debt maturing in 2002 through the use of long term interest rate swaps.

3 Includes U.S. $130.0 million 9.4% debentures issued in 1995 which were effectively converted into Canadian $178.1 million at an effective interest rate of 8.8% reflecting the use of a cross currency swap and the amortization of both debenture purchase warrant proceeds totaling $13.3 million and hedging costs over the life of the primary instrument.

The amounts of long term debt maturities and sinking fund requirements for the years ending December 31, 1998 through 2002, in millions, are $395.7, $249.5, $66.0, $434.0 and $315.6, respectively.

Preference Shares of Energy Distribution Segment

The Cumulative Redeemable Retractable Preference Shares of Consumers Gas (Group 2 $1.6125 Series C – 2,000,000 shares, $50.0 million; Group 3 $1.43 Series C – 2,000,000 shares, $50.0 million) are classified as long term debt. Dividends on these shares for the year ended December 31, 1997, amounted to $6.1 million and are included in interest expense (1996 – $6.1 million; 1995 – $6.1 million).

Credit Facilities

At December 31, 1997, the Corporation had credit facilities in the amount of $2,275.2 million arranged for the following business segments:

	Committed	Uncommitted	Drawdowns
Energy Transportation	150.0	–	–
Energy Distribution	359.7	305.5	10.3
Corporate	1,460.0	–	–
	1,969.7	305.5	10.3

Committed facilities carry a weighted average standby fee of 0.061% per annum on the unutilized portion. The committed facilities for the Energy Transportation and Energy Distribution segments expire in 1998 and are extendible subject to the approval of the lenders. The committed facility for corporate purposes expires in 2002. Drawdowns under these facilities bear interest at prevailing market rates.

10. Capital Stock

The authorized capital stock of the Corporation consists of an unlimited number of common and preferred shares. No preferred shares have been issued.

(number of shares in thousands)	1997 Number	1997 Amount	1996 Number	1996 Amount	1995 Number	1995 Amount
Balance at beginning of year	**67,490**	**1,126.2**	60,873	879.6	40,583	243.8
Dividend reinvestment and share purchase plan	**611**	**26.2**	920	31.6	849	24.9
Investment by Noverco (Note 6)	**6,000**	**287.1**	–	–	–	–
Public issue	**–**	**–**	3,000	106.6	4,170	122.2
Acquisition of remaining common shares of Consumers Gas (Note 7)	**–**	**–**	2,645	105.1	–	–
Conversion of Convertible Debentures	**–**	**–**	–	–	15,079	483.4
Other	**63**	**2.3**	52	3.3	192	5.3
Balance at end of year	**74,164**	**1,441.8**	67,490	1,126.2	60,873	879.6

Earnings Per Share

Earnings per share are computed on the weighted average number of shares outstanding of 68,904,000, 62,165,000 and 56,791,000 in 1997, 1996, and 1995, respectively. On a full year basis, there were no materially dilutive instruments outstanding during each of the years in the three year period ended December 31, 1997. The weighted average number of shares outstanding in 1997 has been reduced by the Corporation's pro rata interest in its own common shares resulting from the investment in Noverco (Note 6).

Dividend Reinvestment and Share Purchase Plan

The Corporation has a Dividend Reinvestment and Share Purchase Plan. Under the Plan, registered shareholders may reinvest dividends in common shares of the Corporation, or make optional cash payments to purchase additional common shares, in either case free of brokerage or other charges.

Issue of Capital Stock

On October 7, 1996, the Corporation completed a public offering of 3,000,000 common shares for cash proceeds of $111.2 million less related issue costs. On May 26, 1995, the Corporation completed a public offering of 4,170,000 common shares for cash proceeds of $125.1 million less related issue costs.

Convertible Debentures

On March 24, 1994, the Corporation issued $500 million 3.75% Convertible Unsecured Subordinated Debentures, represented by instalment receipts, with a maturity date of March 15, 2015, in order to provide permanent financing for the acquisition of Consumers Gas. The debentures became convertible, at the option of the holders, into common shares of the Corporation upon payment of the second installment which was due March 1, 1995. During 1995, all of the debentures were converted.

Shareholder Rights Plan

The Corporation has a Shareholder Rights Plan designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Corporation. Rights issued under the plan become exercisable when a person, and any related parties, acquires or announces its intention to acquire 20% or more of the Corporation's outstanding common shares without complying with certain provisions set out in the rights plan, or without approval of the Board of Directors of the Corporation. Should such an acquisition or announcement occur, each rights holder, other than the acquiring person and related parties, will have the right to purchase common shares of the Corporation at a 50% discount to the market price at that time.

11. Stock Option Plan

Full time key employees are granted options to purchase unissued common shares, exercisable at the market price of common shares at the date the options are granted. Under current provisions of the plan, options vest in equal annual instalments over a four year period and expire after ten years from the original issue date. The plan allows the Corporation to provide for option holders restricted stock units equivalent to the amount of dividends that would have been received on the number of common shares subject to unexercised options. A maximum of 2,000,000 common shares are reserved for issuance under the plan.

(options in thousands; exercise price in dollars)	1997 Number	1997 Weighted Average Exercise Price	1996 Number	1996 Weighted Average Exercise Price	1995 Number	1995 Weighted Average Exercise Price
Number of shares under option at beginning of year	**692**	**30.29**	656	28.46	496	26.49
Options granted	**322**	**48.76**	87	40.00	199	32.75
Options exercised	**(64)**	**25.67**	(49)	23.48	(35)	22.72
Options cancelled or expired	**(13)**	**33.84**	(2)	27.35	(4)	27.66
Number of shares under option at end of year	**937**	**36.90**	692	30.29	656	28.46

At December 31, 1997, the exercise prices of outstanding stock options ranged from $22.86 to $49.65 (1996 – $22.86 to $40.00; 1995 – $19.55 to $32.75). Outstanding stock options will expire over a period ending no later than September 1, 2007.

12. Financial Instruments

Fair Value of Financial Instruments

The fair value of financial instruments represent an approximation of amounts that would have been received from or paid to counterparties, calculated at the reporting date, to settle these instruments prior to maturity. At December 31, 1997, the Corporation had no intention of settling any instruments prior to maturity. Carrying amounts of financial instruments represent amounts recorded in the consolidated statement of financial position.

With the exception of the items listed below, the estimated fair values of all financial instruments approximate the carrying amounts.

December 31,	1997 Carrying Amount	1997 Fair Value	1996 Carrying Amount	1996 Fair Value
Long term debt				
Regulated operations	**2,552.7**	**3,004.4**	2,269.3	2,586.7
Non regulated operations	**1,009.4**	**1,036.3**	754.0	782.9

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at December 31, 1997 and 1996:

1. The fair value of long term debt is based on quoted market prices at year end or based on the discounted future cash flows of each debt issue at current interest rates for remaining terms to maturity. Due to the regulatory nature of business operations, the Corporation has the ability to recover related interest on debt at existing rates.
2. The carrying amount of the Corporation's long term investment in the Colombia Pipeline Project approximates fair value as the contractual rate of return represents current market rates for investments with similar terms and conditions.
3. The carrying amounts of all financial instruments classified as current approximate fair value because of the short maturities of these instruments.

Risk Management

By virtue of its business operations, the Corporation is exposed to movements in the U.S./Canadian dollar exchange rate, interest rates and the price of natural gas. In order to minimize these exposures for both its ratepayers and shareholders, the Corporation utilizes a variety of hedging instruments to create an offsetting position to specific exposures. These instruments are employed in connection with an underlying asset, liability or anticipated transaction, and are not used for speculative purposes.

By entering into these hedging instruments, the Corporation agrees to exchange with counterparties the difference between fixed and variable amounts, calculated by reference to specific foreign exchange rates, interest rates, or natural gas price indices based on a notional principal amount or notional quantity of natural gas. The notional amounts are not recorded in the financial statements as they do not represent amounts exchanged by the counterparties.

The Corporation enters into off balance sheet risk management transactions with creditworthy institutions that possess strong investment grade credit ratings or where such transactions are secured with approved forms of collateral. For transactions with terms of greater than five years, the Corporation may also retain the right to require a counterparty (who would otherwise meet the Corporation's credit criteria) to provide collateral within a specified time frame. As at December 31, 1997, no material credit exposure existed as the Corporation was not party to any off balance sheet instruments in a significant receivable position.

Foreign Exchange

The Corporation has an exposure to the U.S./Canadian dollar exchange rate primarily through its investments in U.S. dollar denominated operations. In 1997, the Corporation established a hedging program to eliminate a portion of that long term exposure. At December 31, 1997, the Corporation had entered into forward and cross currency swaps to hedge U.S. dollar denominated earnings of approximately $30 million per annum as well as the redemption of the U.S. dollar denominated investment in Colombia pipeline project of $100 million, thereby mitigating potential currency exposures on the anticipated earnings streams from, and redemption of, these U.S. dollar investments. In addition, forward foreign exchange contracts, including cross currency swaps, have been entered into to hedge the Corporation's exposure on its U.S. dollar denominated debt.

Natural Gas Prices

The Corporation also uses natural gas price swaps, options and collars to manage exposure to natural gas prices which, under the majority of system supply gas contracts, are indexed to U.S. dollar denominated natural gas futures contracts plus a basis differential or to Alberta based gas price indices. Under the regulatory framework governing the Corporation's natural gas distribution operations, the Corporation hedges the cost of a portion of future natural gas supply requirements. Amounts paid or received under this risk mitigation strategy are recognized as part of the cost of the underlying natural gas purchases which is recovered through the rate making process. The regulator continues to monitor the implementation and results of the Corporation's natural gas hedging program. At December 31, 1997, the Corporation had entered into natural gas price swaps and options to effectively manage the price for approximately 15%, or 26.1 billion cubic feet, of its forecast 1998 system gas supply. During the year ended December 31, 1997, the Corporation hedged 36%, or 65.7 billion cubic feet, of its system gas supply (1996 – 42%, or 83.6 billion cubic feet).

Interest Costs

To hedge against the effect of future interest rate movements on its short to long term borrowing requirements, the Corporation enters into forward interest rate agreements, interest rate swaps and interest rate collars.

Fair Value of Off Balance Sheet Financial Instruments

The fair value of off balance sheet financial instruments reflects the estimated amounts that the Corporation would receive or pay to terminate the contracts at the year end date. This fair value represents the difference between the present value of estimated future receipts and future payments under the terms of each instrument which is estimated by obtaining quoted market prices or by using pricing models widely used in financial markets. These fair value amounts should not be viewed in isolation, but rather in relation to the fair values of the underlying hedged transactions and the overall reduction in the Corporation's exposure to adverse fluctuations in foreign exchange rates, interest rates and natural gas prices. At December 31, 1997, the Corporation had no intention of settling any instruments prior to maturity.

At year end, the Corporation was party to off balance sheet financial instruments hedging the following exposures:

December 31,	1997 Notional Principal or Quantity	1997 Fair Value Payable/ (Receivable)	1997 Maturity	1996 Notional Principal or Quantity	1996 Fair Value Payable/ (Receivable)	1996 Maturity
Foreign exchange						
Cross currency swaps	**316.2**	**11.9**	**2013-2021**	178.1	19.1	2001
Forwards (cumulative exchange amounts)	**1,225.2**	**31.2**	**1998-2021**	150.5	–	1997
Interest rates	**100.0**	**8.4**	**2002**	375.0	4.7	1997-2002
Natural gas prices (billion cubic feet)	**26.1**	**(3.7)**	**1998**	46.7	1.6	1997

There were no material gains or losses deferred in relation to any of the Corporation's off balance sheet hedges of anticipated transactions at December 31, 1997 and 1996.

Trade Credit Risk

Trade receivables relating to Energy Transportation consist primarily of amounts due from companies operating in the oil and gas industry and are collateralized by the crude oil and other products contained in the Corporation's pipeline and storage facilities. Credit risk with respect to trade receivables of the Energy Distribution business is reduced by the large and diversified customer base, and the ability to recover an estimate for doubtful accounts through the ratemaking process. The allowance for doubtful accounts amounted to $16.9 million at December 31, 1997 (1996 – $15.6 million).

13. Postretirement Benefits

Pension Plans

The Corporation has non contributory defined benefit and defined contribution pension plans for Energy Transportation and a contributory defined benefit pension plan for Energy Distribution. Retirement benefits under defined benefit plans are based on the employees' years of service and remuneration. Contributions made by the Corporation are in accordance with independent actuarial valuations and are invested primarily in publicly traded equity and fixed income securities. The defined contribution plan for Energy Transportation covers all employees hired after January 1, 1997 as well as existing employees who elected to leave the defined benefit plan on a prospective basis. Contributions under this plan are based on each employee's age and years of service.

Energy Transportation pension costs under the defined benefit pension plan reflect management's best estimates of the rate of return on pension plan assets, rate of salary increases and various other factors including mortality rates, terminations and retirement ages. Adjustments arising from plan amendments, experience gains and losses, and changes to assumptions are amortized over the expected average remaining service lives of the employees. For the defined contribution plan, pension expense equals amounts contributed by the Corporation, which totaled $1.2 million in 1997.

Energy Distribution records as pension expense the contributions deemed sufficient by its actuaries to fully fund the plan over an acceptable time frame.

The status of the Corporation's pension plans was as follows:

December 31,	1997	1996
Pension plan assets at market values:		
Energy Transportation	**286.2**	242.6
Energy Distribution	**614.5**	495.4
	900.7	738.0
Projected benefit obligations:		
Energy Transportation	**197.0**	175.8
Energy Distribution	**381.9**	318.8
	578.9	494.6

The Corporation's pension cost, including amounts related to the defined contribution plan, amounted to $9.2 million (1996 – $9.8 million; 1995 – $9.6 million) and the deferred pension asset was $13.9 million (1996 – $12.9 million).

Postretirement Benefits Other than Pensions

The cost of providing postretirement benefits other than pensions amounted to $1.7 million (1996 – $1.3 million; 1995 – $1.4 million).

14. Related Party Transactions

The U.S. Master Limited Partnership, which does not have any employees, uses the services of the Corporation for managing and operating the U.S. pipeline business. These services, which are charged at cost in accordance with service agreements, amounted to $46.0 million (1996 – $46.1 million; 1995 – $46.7 million). Accounts receivable include $2.1 million due from the Partnership (1996 – $2.0 million).

15. Commitments and Contingencies

Consumers Gas

Consumers Gas is aware that the remediation of discontinued manufactured gas plant sites may become an issue in the future. The probable overall cost of remediation measures cannot be determined at this time due to uncertainty about the existence or extent of environmental risks, the complexity of laws and regulations particularly with respect to sites decommissioned years ago and no longer owned by Consumers Gas, and the selection of alternative remediation approaches. Although there are no known regulatory precedents in Canada, there are precedents in the United States for recovery of costs of a similar nature in rates. Consumers Gas expects that, if it is found that it must contribute to any remediation costs, it would be generally allowed to recover in rates those costs not recovered through insurance or by other means and believes that the ultimate outcome of these matters would not have a significant impact on its financial position.

On April 25, 1994, a class action was commenced against Consumers Gas by a customer alleging that the OEB approved late payment penalties charged to customers were contrary to federal law and seeking certification of the action as a class action. The claim sought $112 million in restitutionary payments and other relief on behalf of all people who were customers of Consumers Gas who had paid or been charged such penalties since April 1, 1981. The class action was not certified by the Court although the Class Proceedings Committee, established under the Ontario Class Proceedings Act, 1992, decided that it would fund the action. On February 13, 1995, Mr. Justice Winkler, of the Ontario Court of Justice, General Division, issued a judgement in favour of Consumers Gas dismissing the class action lawsuit. He concluded that the late payment charge is not interest payable on a credit transaction, but is an incentive to customers to pay their bills by a certain date. He held that Section 347 of the Criminal Code of Canada, which deals with interest on credit transactions, did not apply. On March 10, 1995, the plaintiff's solicitors filed a notice of an appeal of the decision of the trial judge. The appeal was heard on September 12, 1996, and on September 19, 1996 the Court of Appeal dismissed the appeal. The plaintiff then sought leave to appeal to the Supreme Court of Canada from the decision of the Ontario Court of Appeal. The Supreme Court granted leave to appeal on June 19, 1997. A tentative date of March 23, 1998 has been set for the Court to hear the matter.

U.S. Master Limited Partnership

Lakehead has agreed to indemnify the Partnership from and against substantially all liabilities, including liabilities relating to environmental matters, arising from operations prior to the transfer of its pipeline operations to the Partnership in 1991. This indemnification does not apply to amounts that the Partnership would be able to recover in its tariff rates (if not recovered through insurance), or to any liabilities relating to a change in laws after December 27, 1991. In addition, in the event of default, Lakehead, as the General Partner, is subject to recourse with respect to the Partnership's long term debt which amounted to U.S.$463.0 million at December 31, 1997.

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Provisions have been made for potential liabilities, if any, resulting from claims against the Corporation arising in the normal course of business. Furthermore, in the case of income tax reassessments, where deemed appropriate, advance tax payments are made to forestall non deductible interest potentially resulting from the outcome of contested reassessments. Such payments are reflected in receivables in the statement of financial position. The ultimate outcome of these claims cannot be reasonably estimated at this time. However, in the opinion of management, exposures in excess of the provisions made, if any, would not be material.

Cornwall Electric

On September 26, 1997, the Corporation announced that it had agreed to purchase the City of Cornwall's electricity distribution utility (Cornwall Electric) for $68.0 million. Cornwall Electric provides electrical power to the residents of Cornwall and surrounding area. The purchase remains subject to approval of the City Council of Cornwall. Upon closing, this acquisition will be accounted for using the purchase method and will be financed with debt.

16. United States Accounting Principles

As a registrant with the United States Securities and Exchange Commission, the Corporation is required to reconcile its financial results for significant differences between generally accepted accounting principles in Canada (Canadian GAAP) and those accepted in the United States (U.S. GAAP). Although the accounting bodies of the two countries are moving towards harmonization of accounting principles, current differences with U.S. GAAP result in variations in reported earnings as well as differences in presentation and disclosure.

The following information describes the effect of differences between Canadian and U.S. GAAP on the Corporation's consolidated financial statements:

Earnings [1]	1997	1996	1995
Earnings reported under Canadian GAAP	**217.3**	180.3	130.4
Foreign currency translation gain (loss)	**(9.6)**	1.2	7.8
Earnings under U.S. GAAP	**207.7**	181.5	138.2
Earnings per share			
Canadian GAAP	**3.15**	2.90	2.30
U.S. GAAP	**3.01**	2.92	2.43

	1997		1996		1995	
Cash Flows [2]	Canada	U.S.	Canada	U.S.	Canada	U.S.
Cash provided from:						
Operating activities	**432.0**	**443.8**	538.0	492.6	470.0	419.3
Investing activities	**(1,101.1)**	**(1,064.9)**	(822.4)	(822.4)	(510.2)	(510.2)
Financing activities	**706.6**	**658.6**	266.4	311.8	59.6	110.3

	1997		1996	
Financial Position [3,4]	Canada	U.S.	Canada	U.S.
Long term investments	**517.3**	**543.2**	177.1	177.1
Deferred charges and other	**142.1**	**1,279.8**	123.0	1,183.4
Property, plant and equipment, net	**5,215.0**	**5,641.3**	4,807.0	5,269.0
Deferred credits	**59.8**	**222.8**	47.5	212.0
Deferred income taxes	**374.2**	**1,823.1**	373.6	1,743.9
Retained earnings	**336.7**	**314.7**	266.5	254.1

1 Under U.S. GAAP, the deferred income tax liability related to integrated foreign operations is considered a monetary item and translated using the rate of exchange in effect at the date of the statement of financial position.

2 Under U.S. GAAP, changes in short term borrowings are classified as a financing activity. In addition, changes in working capital where appropriate are allocated among operating, investing and financing activities.
In 1997, interest paid, net of amounts capitalized, was $258.7 million (1996 – $259.7 million; 1995 – $249.9 million). Income taxes paid amounted to $172.1 million (1996 – $67.4 million; 1995 – $89.6 million).

3 Under U.S. GAAP, deferred income tax liabilities are recorded for regulated operations which follow the taxes payable method. As these deferred income taxes are recoverable through future revenues, a corresponding deferred asset is also recorded. These assets and liabilities reflect changes in enacted income tax rates.

U.S. GAAP requires that the costs of postretirement benefits be determined using the accrual method. The application of the accrual method of accounting for pension and other post retirement benefits on a consolidated basis has no effect on earnings as any difference from the allowed method of recovery is recognized as a deferred asset or credit and would be recovered or refunded, respectively, through the regulatory process.

For business acquisitions, the purchase price allocation reflects the recognition of additional deferred income tax liabilities on the excess of the purchase prices over the net book value of assets acquired and liabilities assumed. A corresponding increase to property, plant and equipment acquired is also recognized. In addition, a portion of the purchase price is allocated to the unrecognized excess of pension plan assets over the projected benefit obligations at the date of acquisition. However, an offsetting deferred liability, reflecting the expected future refund of such excess through the regulatory process, is also recognized.

4 Under U.S. GAAP, the Corporation's investments in joint ventures are accounted for using either the equity or the cost method.

The following additional disclosures are required under U.S. GAAP:

Deferred Income Taxes

Deferred income taxes have arisen as a result of the following items:

December 31,	1997	1996
Differences between capital cost allowance and depreciation:		
Property, plant and equipment	**639.0**	613.6
Long term investment	**26.2**	27.2
Recognition of taxes on:		
Acquisition purchase price excess	**451.2**	462.0
Incremental revenue required for recovery of unrecorded taxes	**408.6**	380.8
Transfer of U.S. pipeline business to Master Limited Partnership	**204.6**	195.7
Other	**93.5**	64.6
Deferred income taxes	**1,823.1**	1,743.9

Pension Plans

Disclosures required under U.S. GAAP for pension plans are as follows:

Projected Benefit Obligations

December 31,	1997	1996
Actuarial present value of accrued pension benefits		
Vested	**451.0**	366.4
Non vested	**17.1**	15.3
Accumulated benefit obligations	**468.1**	381.7
Additional amounts related to future salary increases	**110.8**	112.9
Projected benefit obligations	**578.9**	494.6

Net Pension Asset

December 31,	1997	1996
Pension plan assets in excess of projected benefit obligations	**321.8**	243.4
Unrecognized pension plan surplus	**(3.9)**	(4.8)
Unrecognized net gain	**(173.9)**	(111.0)
Net pension asset under U.S. GAAP	**144.0**	127.6

Pension Cost

Year ended December 31,	1997	1996	1995
Benefits earned during the year	**14.5**	13.5	11.7
Interest cost on projected benefit obligations	**40.4**	37.9	35.4
Return on plan assets	**(159.2)**	(89.9)	(69.9)
Amortization and deferral of unrecognized amounts	**100.3**	37.1	22.5
Amount credited to the Partnership	**0.7**	0.4	0.2
Pension credit under U.S. GAAP	**(3.3)**	(1.0)	(0.1)

Economic Assumptions

The most significant economic assumptions made in the measurement of the pension costs and the projected benefit obligations of the pension plans were as follows:

Year ended December 31,	**1997**	1996	1995
Discount rate	**6.5 – 7.3%**	7.8 – 8.5%	7.3 – 8.5%
Average rate of salary increases	**4.8 – 5.5%**	5.5 – 5.8%	5.5 – 5.8%
Average rate of return on pension plan assets	**8.0 – 8.5%**	8.0 – 8.5%	8.0 – 8.5%

Postretirement Benefits Other Than Pensions

U.S. GAAP requires the accrual, during the years the employees render service, of the expected cost of providing postretirement health care and life insurance to employees, their beneficiaries and qualified dependants.

Postretirement Benefit Obligations

Based on actuarial valuations dated January 1, 1997, the status of the Corporation's postretirement benefit plans was as follows:

December 31,	**1997**	1996
Accumulated postretirement benefit obligations (APBO)		
Retirees eligible for benefits	**37.3**	32.7
Active employees fully eligible	**14.6**	13.5
Active employees not fully eligible	**33.8**	30.8
APBO	**85.7**	77.0
Plan assets at fair value	**13.0**	11.2
APBO in excess of plan assets	**72.7**	65.8
Unrecognized gain	**5.3**	4.8
Unrecognized transition obligation	**(54.3)**	(57.1)
Postretirement benefit obligations under U.S. GAAP	**23.7**	13.5

The transition obligation is being amortized over the expected average remaining service lives of the employee group.

Postretirement Benefit Cost

Year ended December 31,	**1997**	1996	1995
Service cost	**2.5**	2.4	2.1
Interest cost	**6.7**	5.8	5.6
Actual return on plan assets	**(0.5)**	(0.3)	(0.8)
Amortization and deferral of unrecognized amounts	**3.6**	3.5	4.1
Amount charged to the Partnership	**(2.7)**	(3.0)	(3.0)
Postretirement benefit cost under U.S. GAAP	**9.6**	8.4	8.0

Economic Assumptions

The most significant economic assumptions made in the measurement of the postretirement benefit costs and the projected obligations were as follows:

Year ended December 31,	**1997**	1996	1995
Discount rate	**6.5 – 7.3%**	7.8 – 8.5%	7.3 – 8.5%
Medical cost trend rate	**6.0 – 7.0%**	8.0 – 11.0%	9.0 – 12.0%
Dental cost trend rate	**6.0%**	6.0 – 8.5%	6.0 – 8.9%

A 1% change in the assumed health care cost trend rate would result in a $17.6 million change in the accumulated postretirement benefit obligation and a $2.6 million change in postretirement benefit costs.

Five Year Consolidated Highlights

Shareholder and Investor Information

(per share amounts in Canadian dollars)

	1997	1996	1995	1994	1993
Average shares outstanding weighted monthly during the year (thousands)	**68,904**	62,165	56,791	40,086	39,889
Number of registered shareholders at year end	**10,036**	10,060	8,824	7,929	7,590
Share Trading (TSE)					
High	**65.70**	42.00	33.00	34.25	33.00
Low	**39.05**	31.75	26.88	26.88	22.38
Close	**65.40**	39.95	31.88	28.50	32.25
Volume (thousands)	**27,672**	26,093	27,058	16,352	20,477
Per Share Data					
Earnings	**3.15**	2.90	2.30	1.09	2.03
Cash provided from operating activities	**6.27**	8.65	8.28	4.94	3.36
Dividends	**2.12**	2.03	2.00	2.00	2.00
Financial Ratios					
Return on average shareholders' equity [1]	**14.2%**	15.0%	13.2%	9.5%	17.7%
Return on average capital employed [2]	**7.0%**	7.6%	7.0%	3.9%	8.2%
Debt to debt plus shareholders' equity [3]	**67.7%**	68.4%	69.1%	85.9%	57.1%
Debt to total capital employed	**62.5%**	62.5%	62.7%	77.9%	41.3%
Earnings coverage of interest [4]	**2.4x**	2.3x	1.8x	1.3x	3.3x
Dividend payout ratio [5]	**67.7%**	69.8%	89.1%	183.9%	98.8%

1 Earnings divided by average shareholders' equity (weighted monthly during the year).

2 Sum of earnings, minority interest and after tax interest expense divided by average capital employed (weighted monthly during the year). Capital employed is equal to to the sum of shareholders' equity, minority interest, deferred income taxes, deferred credits, and total debt (excluding short term borrowings which finance gas in storage).

3 Total debt (excluding short term borrowings which finance gas in storage) divided by the sum of shareholders' equity and minority interest.

4 Sum of earnings before income taxes, minority interest and interest expense, divided by interest expense.

5 Dividends divided by earnings.

Corporate Information

Board of Directors

J. Lorne Braithwaite [1,2]
President & Chief Executive Officer
Cambridge Shopping Centres Limited
Toronto, Ontario

André Caillé [1]
President & Chief Executive Officer
Hydro-Quebec
Montreal, Quebec

William A. Dimma, C.M. [1,2]
Company Director
Toronto, Ontario

E. Susan Evans, Q.C. [3]
Company Director
Calgary, Alberta

F. William Fitzpatrick [1,3]
Company Director
Paradise Valley, Arizona

Richard L. George [4]
President & Chief Executive Officer
Suncor Energy Inc.
Calgary, Alberta

Louis D. Hyndman, O.C., Q.C. [3,4]
Senior Partner
Field Atkinson Perraton
Edmonton, Alberta

Brian F. MacNeill
President & Chief Executive Officer
IPL Energy Inc.
Calgary, Alberta

Robert W. Martin [3,4]
Chairman
Silcorp Limited
Toronto, Ontario

Earl H. Orser, C.M. [2,4]
Chairman
Spar Aerospace Limited
London, Ontario

Donald J. Taylor [1,2]
Chair
IPL Energy Inc.
Jacksons Point, Ontario

1 Member of Human Resources & Compensation Committee
2 Member of Governance Committee
3 Member of Audit, Finance & Risk Committee
4 Member of Environment, Health & Safety Committee

Senior Management

Brian F. MacNeill
President & Chief Executive Officer

Patrick D. Daniel
Executive Vice President
& Chief Operating Officer –
Energy Transportation Services

Ronald D. Munkley
Executive Vice President
& Chief Operating Officer –
Energy Distribution Services

Mel F. Belich
Senior Vice President, General
Counsel & Corporate Secretary

J. Richard Bird
Senior Vice President, Corporate
Planning & Development

Bonnie D. DuPont
Senior Vice President,
Human Resources

Derek P. Truswell
Senior Vice President
& Chief Financial Officer

Shareholder Information

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Attention: Stock Transfer
Toll Free: (800) 526-0801

Inquiries regarding the dividend reinvestment and share purchase plan, change of address, share transfer, lost certificates, dividends, and duplicate mailings should be directed, as appropriate, to CIBC Mellon Trust Company in Canada or to ChaseMellon in the United States.

Other inquiries may be addressed to:

Director, Investor Relations
IPL Energy Inc.
2900, 421 – 7 Avenue S.W.
Calgary, Alberta, Canada
T2P 4K9
Telephone: (403) 231-3973
Toll Free: (800) 481-2804
Facsimile: (403) 231-4848

Dividend Reinvestment and Share Purchase Plan, and Dividend Direct Deposit

IPL Energy Inc. offers a Dividend Reinvestment and Share Purchase Plan which enables shareholders to reinvest their cash dividends in common shares and to make additional cash payments for purchases at the market price. The Company also offers Dividend Direct Deposit which enables shareholders to receive dividends by electronic fund transfer to the bank account of their choice in Canada. Details may be obtained by contacting CIBC Mellon Trust Company at any of the locations listed above.

Stock Trading

The common shares of IPL Energy Inc. trade in Canada on the Toronto and Montreal stock exchanges under the ticker symbol "IPL" and in the United States on The NASDAQ National Market under "IPPIF".

Form 10-K

The Corporation files annually with the Securities and Exchange Commission of the United States a report known as the Annual Report on Form 10-K. Copies of the Form 10-K are available to shareholders, free of charge, upon written request to the Corporation.

Trustee and Registrar for Debentures

Montreal Trust Company
Montreal, Toronto, Winnipeg, Edmonton and Vancouver

Auditors

Price Waterhouse

Annual Meeting

The Annual Meeting of Shareholders will be held at the Hotel Macdonald, Edmonton, Alberta, Canada at 1:30 p.m. on Thursday, April 30, 1998.

Registered Office

IPL Energy Inc.
2900, 421 – 7 Avenue S.W.
Calgary, Alberta, Canada
T2P 4K9
Telephone: (403) 231-3900
Facsimile: (403) 231-3920
Internet: www.iplenergy.com

Le présent document est disponible en français

1998 Dividend Information

	1st Q	2nd Q	3rd Q	4th Q
Record Date	Feb. 13	May 15	Aug. 14	Nov. 19
Payment Date	March 1	June 1	Sept. 1	Dec. 1
Share purchase cut-off date for DRIP	Feb. 23	May 25	Aug. 25	Nov. 24

(cheques can be post-dated to the payment date)

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